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102D CONGRESS
1st Session

COMMITTEE PRINT

WMCP:
102-22

SUBCOMMITTEE ON TRADE

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE MISSION TO EUROPE AND THE SOVIET UNION

OCTOBER 21, 1991

Printed for the use of the Committee on Ways and Means by its staff

U.S. GOVERNMENT PRINTING OFFICE
47-595
WASHINGTON : 1991

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-035786-1

H782-41

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LETTER OF TRANSMITTAL

U.S. House of Representatives,
Committee on Ways and Means,
Subcommittee on Trade,
Washington, D.C., October 21, 1991.

Hon. Dan Rostenkowski, *Chairman,*
Committee on Ways and Means, U.S. House of Representatives,
Longworth House Office Building, Washington, D.C.

Dear Mr. Chairman: I am pleased to transmit to you the enclosed delegation report on the recent Subcommittee on Trade mission to Europe and the Soviet Union. This report contains specific findings and recommendations, summaries of meetings with foreign leaders, and a comprehensive appendix of documents relating to our mission.

This was the first visit by a Committee on Ways and Means delegation to the Soviet Union in over 10 years and it could not have occurred at a more historic moment. The collapse of communism, the independence of the Baltic republics, and major economic and political reforms all took place while the delegation was inside the Soviet Union.

The delegation arrived in Moscow on September 3, amidst the turmoil resulting from the failed hard-line coup attempt only 10 days earlier. Our original purpose was to review bilateral trade relations. However, the delegation found itself discussing proposals for a new economic and political union, as well as wholesale changes in Soviet foreign and domestic policy. For example, as the first American delegation to meet with the new Soviet Foreign Minister, Boris Pankin, we learned of the decision to cut Soviet aid to Cuba. This removes a major issue of contention in United States-Soviet relations.

In addition, the Soviet parliament—the Congress of People's Deputies—was in emergency session adopting a new transitional government structure. Because of the uncertainties stemming from dissolution of the old union, the delegation was forced to cancel scheduled visits to the Ukraine and the central Asian Republic of Kazakhstan. However, the delegation visited Georgia and Estonia, in addition to Moscow.

From August 31 to September 2, the delegation was in the Soviet Georgian capital of Tbilisi for meetings with the President, Prime Minister and Parliament. In addition, we had lively discussions with Georgian business leaders interested in doing business directly with the United States.

On September 6–7, the delegation stopped in Tallinn, the capital of the newly independent Baltic Republic of Estonia. The Estonians strongly objected to their inclusion in the U.S.-U.S.S.R. trade agreement, and urged an immediate and separate extension of most-favored-nation tariff status for the Baltic states. It was during these meetings that the Estonian government received notification from the Kremlin of its independence from the Soviet Union. Members were proud to be part of this historic event.

I believe that the first priority of the new government in the Soviet Union must be to accelerate the demilitarization of its economy and society. Some experts have estimated military spending at more than a quarter of the Soviet GNP. In order for the Soviets to become internationally competitive, these spending levels must come down. This means not only reducing their stockpiles of nuclear weapons, but also cutting back on conventional armed forces. The process of converting defense production to consumer production and agricultural processing must move forward.

While we saw no evidence of widespread famine, it is clear that the winter of 1991–92 will be a difficult one, due to poor grain harvests, grossly inefficient food distribution, and low coal supplies. In my opinion, we should support humanitarian assistance—food and medical supplies—rather than direct financial assistance. We should also support technical assistance and advice through the private sector. Events are moving so rapidly and officials are changing so frequently, that I do not believe it would be prudent to offer direct financial assistance at this time.

The key to economic development of the Soviet Union and the Baltic republics is international trade and foreign investment. Despite the difficulties American companies face in determining with whom to deal, it is imperative that U.S. businesses continue to enter the Soviet market—either through joint ventures or by direct investment. I believe the long-term potential for U.S. business interests is great. This is all the more urgent since our foreign competitors are already established in the market. As more autonomy is granted to the individual republics, American business should expand direct contacts with republic and local officials.

The best way this Committee and the Congress can facilitate the transition to a market-based economy while assisting economic growth is through a normalization of trade and economic relations. Therefore, we should enact H.J. Res. 346, approving the United States-Soviet trade agreement and extending most-favored-nation tariff status to the products of the Soviet Union. This is an important first step toward integrating the Soviets into the world economy. Soviet membership in international economic organizations also should be considered. Soviet officials assured us that the new government would honor its international commitments, including the ratification of the trade agreement by the new Supreme Soviet.

The other step we can take is to enact H.R. 3313, introduced by members of the delegation upon arrival in Washington. This bill would provide separate most-favored-nation status for the three Baltic nations—Estonia, Latvia, and Lithuania—and urges the extension of GSP benefits. These nations have suffered under forcible Soviet occupation since 1940 and now are seeking to follow their eastern European neighbors in democratization and privatisation.

Similarly, our visit to Czechoslovakia confirmed my interest in passage of H.R. 1724, a bill normalizing bilateral trade relations and terminating the application of title IV of the Trade Act of 1974 (the so-called Jackson-Vanik amendment) to both Hungary and Czechoslovakia.

The right of Soviet citizens to emigrate was codified in the new Soviet emigration law, and nearly 400,000 citizens emigrated in 1990. Many eastern and central European countries have adopted unrestricted emigration policies as part of their economic and political reforms. Therefore, I firmly believe that because the principal rationale for title IV has been met, that statute should be repealed.

Finally, Mr. Chairman, a consistent message of the delegation was that reallocation of political power between the central government and the twelve remaining republics was an issue for the Soviets themselves to decide. We strongly urged, however, that three points be considered as they make these historic decisions: (1) move as quickly as possible to a market-based economy; (2) adopt a unified foreign trade policy with a common external tariff in any new economic commonwealth arrangement (similar to the EC Customs Union); and (3) commit to internationally accepted standards of human and civil rights, including, but not limited to, the freedom of emigration, religion, speech, press, and association.

I want to express my appreciation to the Department of State for its assistance. Our embassies provided excellent briefings and support for the delegation under the most difficult circumstances.

Sincerely,

SAM M. GIBBONS,
Chairman.

Enclosure.

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OVERVIEW OF MISSION

Between August 24 and September 11, 1991, an eight-member delegation of the Subcommittee on Trade of the Committee on Ways and Means conducted a fact-finding mission to Europe and the Soviet Union. The primary purpose of the mission was two-fold: (1) to assess the current state of bilateral trade relations with the emerging market economies of eastern and central Europe; and (2) to review issues relating to the United States-Soviet trade agreement and most-favored-nation (MFN) tariff status for the Soviet Union.

The delegation visited Germany, Czechoslovakia, Romania, the Soviet Union, Estonia, and the United Kingdom. In the U.S.S.R., the delegation visited Moscow and Tbilisi, the capital of the Soviet republic of Georgia. At each stop, the delegation met with U.S. embassy personnel, foreign government officials, business leaders, and media representatives. In addition, the delegation met with national and local parliamentary leaders.

U.S.S.R. The rapidly unfolding political events in the U.S.S.R. in the aftermath of the failed coup provided a historic backdrop for the delegation's visit. Key events surrounding the collapse of Soviet communism, the independence of the Baltic republics, and major economic and political reforms all took place while the delegation was inside the Soviet Union.

The U.S. embassy in the Soviet Union served as host for the delegation after the original host, the leadership of the Supreme Soviet, was implicated in the abortive coup. The delegation received frequent briefings on developments in the emergency sessions of the Supreme Soviet and Congress of People's Deputies.

The delegation held talks with leaders of the new Inter-republic Economic Committee, as well as with the new Soviet Foreign Minister, Boris Pankin. A wide range of foreign policy issues was discussed with the foreign minister, including a Soviet commitment to ratify the bilateral trade agreement; a possible cutoff of aid to Cuba; possible resolution of the Kurile Islands dispute with Japan; and the status of Soviet military aid to Afghanistan.

The delegation also visited the Russian "White House" to meet with the acting Chairman of the Russian Federation Parliament, Ruslan Khasbulatov. The Russian Republic is clearly the major winner in the reallocation of power from the center, and discussions with Mr. Khasbulatov were informative and insightful. The Republic of Kazakhstan, under the leadership of President Nursultan Nazarbayev, also appeared to increase its power.

In Tbilisi, the delegation learned of the fervent desire of the Georgian people to be free and independent of the U.S.S.R. Examples of privatisation and the movement to a market economy were demonstrated.

The primary message delivered by the delegation in the U.S.S.R. was that decisions on the form and process of the new Soviet governmental structure were for the Soviets themselves to make. However, the delegation strongly urged that three points be considered as the Soviets debate and adopt a new structure:

1. Movement toward a market-based economic system should occur as rapidly as possible;
2. A unified foreign trade policy with a common external tariff in any new economic union should be adopted; and
3. A clear commitment to internationally accepted human and civil rights, including the freedoms of emigration, religion, speech, press, and association, should be made.

In addition, Members raised the importance of adequate protection of intellectual property rights and the payment of arrears by Soviet customers of U.S. businesses. Members also expressed serious concerns about the high levels of international debt accrued by the Soviet Union in the past, how that debt would be repaid and whether the responsibility would be shared among the republics. Soviet officials assured Members that debt obligations would be honored. Timely debt payments and intellectual property protection are critical to attracting U.S. businesses to the Soviet market.

Finally, the overriding question of reducing nuclear weapons and Soviet armed forces was a concern of the delegation; it must be a key goal of the new government if relations with the United States are to become fully normalized. This includes the continuation of Soviet troop withdrawal from eastern Germany, as well as the commencement of troop withdrawals from the Baltic states. Only through a process of demilitarization and defense conversion to consumer industries will the Soviet economy be able to compete effectively in world markets.

Estonia. On September 6–7, the delegation travelled to the newly-independent Republic of Estonia. This was the first day of Estonian independence from the Soviet Union. During meetings, Estonian officials spoke eloquently of the need to have separate MFN tariff status as well as other benefits from the United States and other western countries. With its key Baltic harbor and port, well-developed infrastructure, and educated work force, Estonia is in an advantageous position to become a competitive trading nation.

Eastern Europe. In eastern and central Europe, the delegation visited the German cities of Berlin, Potsdam, and Dresden; Prague, Czechoslovakia; and Bucharest, Romania.

The delegation generally found that democratic and economic reforms in the region were moving rapidly forward. The transition to a market economy, however, is causing serious economic adjustment problems and dislocation. In Czechoslovakia, for example, officials told the delegation that the standard of living dropped 30 percent in 1990 alone.

Government leaders in all countries emphasized that western technical assistance, know-how, and investment are essential to a successful privatisation effort. They pointed to the enactment of liberal foreign investment and joint venture laws as incentives for foreign businesses interested in entering these markets.

Finally, officials in a number of countries expressed concerns about the potential of mass migration into or out of central and eastern Europe, due in large part to intensified ethnic conflicts, liberalized emigration laws, and possible food shortages, particularly in the Soviet Union.

United Kingdom. The trade mission concluded in London with discussions on trade and tax policy. The delegation debated a wide range of bilateral trade and economic issues with the British trade minister, including shipbuilding and Airbus subsidies, EC agricultural reform, telecommunications, and the Uruguay Round.

In separate meetings, British business leaders expressed serious concerns about possible foreign investment restrictions being enacted in the United States. In informative meetings with the United Kingdom Customs and Excise Department, the delegation received a detailed briefing on the operation of the United Kingdom's value-added tax (VAT).

HIGHLIGHTS AND RECOMMENDATIONS

Soviet Union

The United States should enact H.J. Res. 346, approving the United States-Soviet trade agreement and extending most-favored-nation (MFN) tariff status to the Soviet Union. This is a critical first step to normalization of trade relations and integration of the Soviet Union into the world economy.

The new Soviet government—both the center and the individual republics—must proceed to demilitarize the economy and society as soon as possible. This includes drastic reductions in strategic, tactical, and conventional weapons as well as armed forces. Soviet troop withdrawal from eastern Germany should continue on schedule and withdrawal from the Baltic nations should begin immediately.

The U.S.S.R. should be encouraged to adopt a unified foreign trade policy with a common external tariff in any economic commonwealth arrangement negotiated between the center and the republics. The political relationship and form of government is for the Soviet people to decide.

The United States should strongly encourage the new Soviet government to move as rapidly as possible to a market-based economic system. Congress will closely monitor progress toward privatisation and market principles and continue to evaluate the effectiveness of U.S. trade laws in the context of these transitional economies. U.S. businesses should not have to face unfair competition, at home or in the world market, from lingering state-controlled or state-subsidized production.

Protection of intellectual property rights and prompt payment of arrears to U.S. businesses by Soviet enterprises is essential.

The new Soviet government, including individual republics if the responsibility is divided, should clarify its commitment to honor outstanding international debt accrued in past years. Such a commitment will increase business confidence that credit and credit guarantees to enhance future investment opportunities will be forthcoming.

Some Members expressed the view that U.S. financial assistance to the Soviet Union should be based on their willingness to purchase U.S. made products and to provide access to such products in the expanding Soviet market.

Enactment of a new emigration and travel law as well as the emigration from the U.S.S.R. of 372,000 citizens in 1990 demonstrates the Soviet commitment to compliance with Jackson-Vanik requirements. Remaining cases of refuseniks should be carefully followed by the Committee on Ways and Means, and the Congress. Observance of basic human and civil rights throughout the Soviet Union is of critical importance.

Humanitarian assistance—food and medicine—as well as technical assistance should be delivered in time for the winter of 1991-92. Effective distribution channels are needed to assure timely and equitable delivery.

The Departments of State and Commerce should increase immediately the presence of trade and commercial officers, both in Moscow and in the outlying cities and republics.

It is clear that the key to economic development lies in expanded international trade and foreign investment. Despite the difficulties American companies face in knowing with whom to deal, it is imperative that U.S. businesses continue to enter the Soviet market—either through joint ventures or by direct investment. The long-term potential for U.S. business interests is great. This is all the more apparent since our foreign competitors are already established in the market. As more autonomy is granted the individual republics, American business should expand direct contacts with republic and local officials.

Republic of Estonia

The United States should enact H.R. 3313, providing for nondiscriminatory, MFN treatment to the products of the independent Baltic nations of Estonia, Latvia, and Lithuania. This bill was introduced by members of the delegation following the visit to Estonia.

The United States should pursue other means of assisting Estonia's transition to a democratic, market-oriented country, such as extension of GSP benefits and OPIC investment guarantees.

U.S. businesses should consider Estonia as a possible location for investment serving the northern European and Soviet markets.

Czech and Slovak Federal Republic

The United States should enact H.R. 1724, a bill normalizing trade relations with Czechoslovakia and Hungary and terminating the application of the Jackson-Vanik amendment to these countries. Czechoslovakia is in full compliance with the Jackson-Vanik emigration requirements and maintains no restrictions on the freedom to emigrate.

Economic dislocation has resulted from the transition to a market economy and privatisation of state enterprises. The U.S. private sector should be encouraged to invest and conduct business in Czechoslovakia and employ Czechoslovakian nationals.

The U.S. private sector should provide technical assistance and know-how to both the government and the emerging private sector.

Romania

The United States should consider the renewal of MFN status to Romania (presently suspended by mutual agreement) after free and fair elections. Trade agreement obligations in such areas as intellectual property rights and business facilitation should be enhanced.

The United States should continue to monitor closely the human rights situation in Romania, including the treatment of Jewish, Hungarian, and other ethnic minorities.

The U.S. Government and the private sector should work closely with Romania in developing a sound commercial relationship.

Federal Republic of Germany

Despite aggressive privatisation efforts by the German government, very few American or other western companies have made investments in eastern Germany. With the exception of a few Swiss and Austrian companies, most investment to date has been by German-owned businesses.

The delegation strongly encourages American companies to consider doing business in eastern Germany not only because of its strategic location, but also because of its highly educated and motivated work force.

United Kingdom

Introduced in 1973, the United Kingdom's value-added tax (VAT) is a tax on the final consumption of all goods and services, unless exempted. It is collected at every stage of production and distribution. The rates of VAT are currently 17.5 percent and zero. Because this tax is rebatable at the border, it gives the United Kingdom a competitive advantage in world markets.

With respect to trade policy, the British need to be more aggressive in reducing Airbus subsidies and encouraging EC reform of the Common Agricultural Policy (CAP) program.

GERMANY

The delegation visited the German cities of Berlin, Potsdam, and Dresden between August 24–27 and met with U.S. embassy officials, Berlin and Dresden business people, and senior eastern German government officials.

The primary purpose of the visit was to obtain the German perspective on developments in the Soviet Union as well as review first-hand the transition to a market economy in eastern Germany. Chancellor Kohl has been in the forefront of Western efforts to provide aid to the Soviet Union.

German unification officially took place in October 1990, when the former German Democratic Republic (GDR) merged with the Federal Republic of Germany (FRG). Five new federal states were created. With a combined population of nearly 80 million, Germany is now the largest, and arguably most powerful, member state in the European Community (EC). As a result of unification, the former East Germany assumed membership to the General Agreement on Tariffs and Trade (GATT) and received U.S. Most-Favored Nation (MFN) tariff treatment.

Berlin Businessmen and Chamber of Commerce Officials

Directors of the Berliner, Deutsche, and Dresdner banks, officials from the Berlin and American Chambers of Commerce, and government officials provided their insights into the problems facing a reunited Germany during an informal breakfast meeting.

According to the Berlin Chamber of Commerce, German reunification has caused 70,000 to 80,000 firms to cut their personnel by one-third. While the current "official" unemployment rate in eastern Germany is 12.4 percent, the actual rate is much higher. Estimates are that 16 percent of those currently employed are involved in short-time work; 5 percent more are employed through government-sponsored programs intended to reduce unemployment, such as retraining and so-called "make work" programs.

Prior to reunification, 80 percent of the products produced in eastern Germany were intended for the eastern bloc and U.S.S.R. markets. According to Berlin businessmen, not knowing how to operate in a market economy is the biggest obstacle facing eastern Germany's economic growth. Some multinational firms have established subsidiaries in eastern Germany. But there is a general lack of understanding there of marketing, business planning, and accounting techniques.

There is a desire among western and eastern Germans to promote product exports and to develop businesses in other parts of the eastern German regions. But major problems that face eastern German development include lack of power generators, water contamination, and inadequate sewage treatment.

U.S. Embassy Briefing

Principal Officer Richard M. Miles and senior economic, political, and cultural officers provided the delegation with a thorough analysis of recent events and the present political climate in reunified Germany.

Politics

The former GDR held parliamentary elections within a few weeks of reunification. Five new states were created out of the former GDR. The conservative Christian Democratic Party (CDU) won wide support in state and federal elections; four of the state governors are members of the CDU. Saxony elected candidates from the CDU and from a very small, capitalistic party called the Free Democrats. Brandenburg officials were elected from the more liberal Social Democratic Party.

All of the governments in eastern Germany are now non-Communist. However, the Communist party did well in most areas. In eastern Berlin, Communist party candidates received about 30 percent of the votes.

Many of those elected in the former GDR are new to politics and diplomatic relations; all are new to democracy. In some regions such as Saxony, citizens are discovering that some of their newly elected leaders were Stassi, members of the secret East German police. It is estimated that about 10 percent of the recently elected officials worked for the state security apparatus at one time. This discovery has left some eastern Germans disillusioned about the prospects for democracy in the region. It has also created a mood to purge and punish. Border guards that shot people trying to cross the Berlin wall are being systematically tracked down and brought to trial.

According to the U.S. Embassy analysts, the eastern German elected officials are anxious to learn more about democratic processes and forms of government. They are eager for specific information related to the powers and interrelationships of the legislative, judicial, and executive branches. And they are seeking knowledge of how the U.S. Congress drafts and adopts legislation.

The city of Berlin faces some specific problems with public services. The roads and subway systems need to be restored to unite east and west. Telephone service, power generation, and police protection are also inadequate and inefficient. With the anticipated move of the German capital from Bonn, the city of Berlin expects growth from its current 3.5 million to 10 million people by the year 2000.

Economics

On July 1, 1990, the economies of eastern and western Germany entered into an economic and monetary union. From an economy that depended on central planning and soft currency, eastern Germany was plunged into an economy based on Deutsch Marks and capitalism. Overnight, many eastern German businesses were revalued 400 to 500 percent and faced the realization that they could not cover their costs. Many retail concerns had come to this conclusion before the economic merger and had already closed down their operations.

Before reunification, 9 million out of a total population of 19 million people were employed in eastern Germany. Currently, two-thirds of the work force, 6 million people, are employed. But of this 6 million, 1 to 1.5 million hold temporary or "make work" program jobs.

It is expected that the financial claims placed on Germany's federal government will be substantial. Approximately 140 billion Deutsch Marks are being transferred to the eastern part of Germany to provide employment support, to rebuild the infrastructure, and to supply 12 billion Deutsch Marks for Soviet trade guarantees.

Another jolt to the eastern German economy will occur on October 1 when subsidies are ended and rents rise 400 to 500 percent. The projection is that the current depression in eastern Germany should be over in two to three more years.

The effort to privatise state-run companies is in the hands of the federal privatisation agency known as the Treuhandanstalt. Approximately 300 companies have been privatised, but the methods used by the Treuhand have come under intense criticism. Rather than open and public, the procedures and dealings have been characterized as opaque and influenced by political networks and favoritism. Although companies from several Western nations, including the United States, now have assets in eastern Germany, most of the privatisation contracts have been awarded to western German firms. Newly privatised concerns have trimmed the existing work force. Employment in Treuhand-handled companies has decreased from 4 million to 2.1 million people.

Soviet Military Presence

The continued Soviet military presence in eastern Germany is also a drain on its economic resources. The German economy is bearing the burden of the living costs of the approximately 300,000 Soviet troops currently stationed in eastern Germany. In addition, there are approximately 200,000 dependents located there. Under an agreement negotiated between Chancellor Kohl and Soviet President Gorbachev, Germany will also pay for housing in the Soviet Union as well as other costs associated with troop withdrawal. Although there have been few incidents of clashes between Soviets and Germans, most Germans are anxious for the troop withdrawal to be completed as scheduled in 1994.

Potsdam Mayor Dr. Horst Gramlich

The mayor of Potsdam, Dr. Horst Gramlich, met with the delegation and expressed his views on the challenges facing Potsdam and eastern Germany under reunification.

Since reunification and the monetary change, Dr. Gramlich said that there are three major problems impeding the economic growth of Potsdam and eastern Germany. First, with the collapse of the eastern bloc and Soviet markets, there is no market for the goods being produced in eastern Germany. Second, eastern Germany now faces tremendous competition in selling products in the marketplace. Third, there is overemployment in production and administrative jobs; further layoffs are inevitable.

Potsdam is actively seeking investment from the EC, the United States, and other nations. Currently there are approximately 3,000 investors in Potsdam. For example, a U.S. construction firm is in the process of negotiating a contract with the city of Potsdam.

When asked by Congressman Anthony about energy, the Mayor said that before the Communist regime, Potsdam had had its own energy system. Between the time that the Berlin wall fell and Germany was reunited, Potsdam's energy system came under the monopolistic control of a western German concern. The Mayor has recently taken the matter to the German Supreme Court, arguing that the property should be given back to the city of Potsdam. A U.S. firm, among others, is interested in bidding on the energy contract, and the Mayor wants the local government to have control over awarding the contract.

Congressman Pease asked about the ownership of the property currently occupied by the Soviet troops. The Mayor responded that the German Ministry of the Treasury will be in receipt of the lands, once they are vacated by the Soviet troops.

In response to a question from Chairman Gibbons on the Soviet troops, the Mayor stated that no one knows for sure how many troops are in the area because the U.S.S.R. has never released this information. The Mayor hopes that all troops will be withdrawn by 1994 as planned.

Dr. Gramlich sees property rights as a key issue to eastern Germany. He wants to attract hotels, but realizes that until property disputes are settled businesses will be reluctant to locate in Potsdam. Currently the Treuhand is responsible for all previously state-owned property.

Congressman Jenkins asked when the title problems will be solved. The Mayor said that it would be difficult to predict, since the intention is to give properties back to the original claimants. Dr. Gramlich guesses that it may take six to eight years to resolve all the property disputes.

Congresswoman Johnson inquired into the issues that are anticipated in the next mayoral election in Potsdam, scheduled for 1994. The Mayor said that he feels there are three areas that will continue to be of major concern to Potsdam well beyond 1994. First, there is a need for construction and new buildings. Currently, 10,000 people in the Potsdam area are in need of housing. Second, investment needs to occur. Third, Potsdam needs to develop its culture in the theatre, visual arts, and music.

Dresden Businessmen

A group of businessmen and scientists from Dresden informally shared their views on the challenges facing eastern Germany during a luncheon. In addition, members of the Saxony state legislature participated.

Saxony was the industrial heartland of the former GDR. According to the U.S. Consulate, the state accounted for over one-third of its industrial output and almost all of its mining. However, during this time, there was widespread ecological destruction. The Consulate noted that a major goal of the new government is to restructure the industrial base of Saxony as well as clean up the environment.

The same concerns were expressed by the Dresden business community that the delegation heard from the Berlin businessmen and government officials. The Dresdeners are well aware of the overemployment in the administrative and production job sectors. And they are sensitive to the fact that the price of many eastern German products was kept artificially low through heavy government subsidies. Like the Mayor of Potsdam, Dresdeners are keenly aware of the need to solve property disputes. They are interested in developing their emerging tourism industry, but realize that until property rights are free and clear, hotel and restaurant owners will be reluctant to set up establishments in eastern Germany.

CZECH AND SLOVAK FEDERAL REPUBLIC

The delegation visited Prague, Czechoslovakia August 28–30 and met with U.S. embassy officials and senior government representatives. Prior to the visit, the Subcommittee on Trade had reported favorably to the full Committee on Ways and Means a bill, H.R. 1734, to "graduate" Czechoslovakia from the provisions of Title IV of the Trade Act of 1974 (the so-called Jackson-Vanik amendment). The bill would authorize the President to extend most-favored-nation (MFN) status unconditionally to Czechoslovakia, thereby removing that country from inclusion in Title IV, and fully normalizing our bilateral trade relations. Much of the Subcommittee's discussion with government leaders focused on their efforts to bring about a transition of the Czechoslovakian economy from one dominated by centralized state control to one based on market principles, with greater integration in world trade and economic affairs.

U.S. Embassy Briefing

U.S. Ambassador Shirley Temple Black and senior economic and political officers provided the delegation with a comprehensive briefing and analysis of recent developments in Czechoslovakia and of the challenges that lie ahead. They noted that Czechoslovakia faces four key challenges: (1) building a viable democratic system; (2) building viable democratic institutions; (3) resolving differences between Czechs and Slovaks; and (4) integrating Czechoslovakia into the European Community (EC) and Europe. They described the various steps being taken in the political and economic arena to bring about the desired changes. They also noted that Czechoslovakia is very interested in EC membership and, while Czechoslovakia is not following one single model for its new laws, it is striving to make its laws compatible with those of the EC in many areas. Czechoslovakia is in the midst of economic upheaval, as it makes the transition from centralized control to capitalism and privatisation. Czechoslovakia has rejoined the International Monetary Fund (IMF) and is ahead of the program of economic restructuring worked out in cooperation with the IMF. Embassy officials credit Finance Minister Vaclav Klaus and other officials who are pushing rapid reform.

Embassy officials described the business climate in Czechoslovakia as positive, noting that 100 percent foreign ownership is possible. They pointed to a number of successful business ventures by U.S. companies and described efforts by the embassy and other U.S. Government agencies, such as the Overseas Private Investment Corporation (OPIC), to promote additional U.S. business activity in Czechoslovakia. The Agency for International Development (AID) also is playing a key role in helping Czechoslovakia make the transition to a market economy. Ambassador Black also credited the U.S. Trade Development Program (TDP) for its rapid response and strong effort to promote U.S. trade with Czechoslovakia.

Josef Baksay, Minister of Foreign Trade

The Minister expressed appreciation for what the United States has done to help make Czechoslovakia a democratic country. He noted the importance of MFN status (albeit with conditions), the

U.S. Generalized System of Preferences (GSP) benefits, the efforts of Ambassador Black in establishing U.S. business contacts, and the TDP program. He expressed the view that United States-Czechoslovakian relations are bound to improve steadily, but added that distance and a lack of U.S. understanding and knowledge of the Czechoslovakian market will hamper the development of closer trade ties.

Minister Baksay described in detail the efforts being made to transform the Czechoslovakian economy from a centrally planned system, dependent on exports to the Soviet Union and other Soviet bloc COMECON countries, to a market-based system with diversified world trade. Because Czechoslovakia's products had been adapted to Soviet bloc markets, they are not now competitive on world markets, with several possible exceptions, e.g., glass and certain machinery products.

Czechoslovakia's economic reform program, initiated in 1990, has had very good results so far, the Minister noted. Currency stability has been maintained; inflation is lower than expected, and small-scale privatisation is underway (e.g. shops, small hotels, and restaurants). Large-scale privatisation of heavy industry will begin in January 1992. He said the transformation of the economy will require substantial foreign aid—not just money, but technical assistance as well. Finally, Minister Baksay said he would like to see the removal of Jackson-Vanik conditions on Czechoslovakia's MFN status, as well as the removal of voluntary restraint agreements on textile and apparel products, steel, and agricultural products. He noted that Czechoslovakia has no import barriers, with the exception of tariffs.

Chairman Gibbons thanked the Minister for his explanation and expressed the delegation's strong admiration and support for the measures being taken to transform Czechoslovakia to a democratic, market-oriented country. He noted that the Committee on Ways and Means currently is considering legislation (H.R. 1724) to remove Czechoslovakia from the Jackson-Vanik conditions and that the bill is likely to be submitted to the President by the end of November. He added that Czechoslovakia is receiving virtually all available U.S. Government trade and economic preferences and pointed out that the United States is committed in the Uruguay Round of multilateral trade negotiations to phasing out its import restraints on steel and textile products. Congressman Jenkins raised a number of questions about the textile quotas of greatest concern to Czechoslovakia.

Representatives Schulze and Johnson asked the Minister about Czechoslovakia's privatisation efforts, expressing concern over the prospect of government subsidies and dumping of exports on world markets. Minister Baksay said that the government has decided to abolish all subsidies, except for those relating to agriculture and the transformation of arms plants to private production. He noted that weapons production takes place primarily in Slovakia; and in order to avoid serious political problems stemming from massive unemployment in that state, government assistance was necessary. Other than that, however, he reiterated that the government's goal is privatisation without subsidies. He said Czechoslovakia is preparing antidumping legislation which is compatible with world standards; is planning to reduce the size of the steel industry as part of the reform effort; and is discussing the EC's import restrictions as part of the negotiations for Czechoslovakia's association with that body. He noted that as a small country, Czechoslovakia cannot succeed on its own and wants to become a full member of the EC, although the timetable for membership is not clear.

Dr. Zdenek Drabek, President of the Federal Foreign Investment Agency and Ambassador Plenipotentiary

The Federal Foreign Investment Agency is part of the Federal Ministry of Economy. In addition to his position as president of the agency, Dr. Drabek also is heavily involved in the government's privatisation efforts.

Dr. Drabek provided Members with a comprehensive description of the measures already taken and those being planned to privatise the Czechoslovakian economy. He noted that small-scale privatisation, which already is underway, involves discrete, homogeneous units, such as shops and restaurants, and therefore is more easily accomplished than privatisation of large-scale, heavy industry. Large-scale privatisation will be accomplished through an auction system—the largest ever in history. Before any property is privatised however, efforts are being made to return to previous owners (or their heirs) property nationalized after 1948 or to provide restitution if that is not possible.

As part of the auction system for large enterprises, vouchers will be given to every citizen over the age of eighteen, which they can exchange for shares in the enterprises. The shares then can be bought or sold, either directly or through newly established investment funds, similar to U.S. mutual funds. Market prices of the shares will be determined by such bidding.

The purpose of the auction system is twofold: (1) to privatise quickly; and (2) to establish market values for the shares of state enterprises, a value which cannot now be determined. This system will be the first step in the establishment of a stock market. All enterprises will be required to privatise, with a number of checks and balances introduced to avoid delay by reluctant managers or bureaucrats.

Some constraints on privatisation efforts include the following: the time and effort required to organize auctions and the lack of enough auctioneers; restitution owed to previous owners and the problem of multiple claimants for one property, which will delay the sale of that property; and foreign investor concerns over ownership claims and possible restitution.

As to foreign investment, Dr. Drabek noted that Germany is by far the largest investor, followed by Austria and other countries. While U.S. companies appear interested in investing and some have entered into large ventures, Dr. Drabek would like to see a far more active U.S. business presence in Czechoslovakia.

In response to a question from Congressman Pease, Dr. Drabek noted that while there is some public concern over foreign investment, that concern is not particularly strong at the present time. A greater public concern is that, as in the case of East Germany after unification, firms will be found by foreign investors to be essentially worthless and will be shut down, with resultant high unemployment. Concerns also exist over the sale of property at less than a fair market value. The role of the Federal Foreign Investment Agency is to promote foreign investment. Dr. Drabek is pushing for the adoption of criteria under which all foreign investment is permitted, except in certain specified areas such as defense.

Turning to trade issues, Dr. Drabek noted that the collapse of Czechoslovakia's trade with the Soviet Union and other COMECON countries has caused severe problems. Many factories lost 80 percent of their orders overnight. *To help Czechoslovakia, he urged Members to provide increased access to markets;* Czechoslovakia is not asking for money, he said. In response to a question from Congresswoman Johnson, Dr. Drabek noted that a new energy agreement has been reached with the Soviet Union on energy supplies. Czechoslovakia imports 95 percent of its natural gas and 90 percent of its oil from the U.S.S.R., and there are no storage facilities in Czechoslovakia.

The meeting concluded after discussion of the severe housing shortage in Czechoslovakia and the social difficulties entailed in privatising that sector rapidly; of the dilemmas of decontrolling wages in the still massive state sector (i.e., the risk of igniting inflation versus the disincentive to harder work); and on exchange rate valuation concerns.

Karl Schwarzenberg, Chancellor, and Miroslav Zamecnik, Economic Advisor to the President

Chairman Gibbons opened the meeting by asking what the United States could do to help Czechoslovakia. The Chancellor replied, "Market access." Czechoslovakia's markets in eastern Europe have collapsed, and its biggest supplier—the Soviet Union—is breaking down. It is important to open not just U.S. markets, but world markets as well. Mr. Zamecnik said U.S. investors should come to Czechoslovakia—a country on the border of the EC, with Third World labor rates and qualified workers. Good investment prospects include the auto and auto parts industries, chemicals, textile products, and aircraft. Those industries have good export potential as well, he noted, but Czechoslovakia needs marketing assistance and know-how. The President's advisors believe that Czechoslovakia's products are relatively competitive internationally compared to those of other eastern European countries.

In response to a question from Congressman Schulze, the Chancellor said that Czechoslovakia does not intend to subsidize the production of goods. As to agriculture, he noted that Czechoslovakia's agricultural sector is the least subsidized in the world, with the exception of Australia, New Zealand, and Argentina.

Both Presidential advisors felt that U.S. policy toward the Soviet Union should be to help the development of small- and medium-sized companies, as well as to encourage the Soviet Union to resume purchases from traditional suppliers, such as Czechoslovakia. The primary problem in that regard is trade finance. The Soviet Union should be allowed to join the IMF and the World Bank, if it adopts an economic reform program. In their view, if the U.S.S.R. joins the IMF, receives a line of credit, and develops a convertible currency, it very likely will look to Czechoslovakia to supply competitive products.

As to the economic outlook for Czechoslovakia, Mr. Zamecnik noted that living standards had declined 30 percent over the past year; but he believes that the economy has touched the bottom of recession and in two years is likely to be on a good track. He expressed hope and optimism about the economic prospects for Czechoslovakia.

ROMANIA

On August 30 and 31, the delegation was in Bucharest, Romania for discussions with that country's top leaders. Effective July 4, 1989, Romania's MFN status was suspended by mutual agreement of the U.S. and Romanian governments, largely due to serious U.S. concerns over political repression and human rights abuses by the regime then in power. The new government would like to see Romania's MFN status restored. President Bush granted a Jackson-Vanik waiver on August 21, 1991, which makes Romania eligible for U.S. Government credits and credit guarantees on trade in goods and agricultural products. The waiver does not restore Romania's MFN status.

Embassy Briefing

Ambassador Alan Green, Jr., and members of the embassy staff briefed Members on the current political and economic situation in Romania. They stated the Bush Administration's preconditions for restoration of Romania's MFN status: free and fair elections; freedom of the media; and civilian control over the military. They also noted the need for a new trade agreement, with more up-to-date provisions on intellectual property rights and business facilitation; and a bilateral investment treaty. In their view, the people and leaders of Romania have a strong feeling of uncertainty and isolation at the present time, due to instability in the Soviet Union and neighboring Yugoslavia and the fact that Romania does not belong to any military or economic bloc.

Embassy officials said that great changes have taken place since the 1989 revolution. The Prime Minister and Finance Minister are committed to moving to a market economy. The proposed constitution guarantees human rights. Romania has free emigration; free religion; quite free (and numerous) newspapers; and virtually free speech. Concerns remain, however, over the election process. The last election was characterized by intimidation and control of the media. New elections are approaching and will be watched closely—local elections are expected to be held in late 1991; and parliamentary elections in the spring or summer of 1992.

The secret police has been cut in size by about two-thirds, although they still engage in activities that cause concern, such as spying on opposition members. The police have no powers to arrest and operate no prisons, so the situation today is very different from that of previous years. However, the embassy would like to see the secret police under the control of parliament.

As to the economic situation, Romania has serious problems. Ambassador Green said that, in essence, Romania has served 45 years in prison (under communism), with ten years in solitary confinement (during the last years of the Ceaucescu regime). The collapse of Romania's trade with eastern bloc countries, and the oil price shock during the Iraqi war, have hurt Romania tremendously. Romania uses 80 percent of its export earnings simply to pay for energy imports. All economic indicators are down, except for inflation; industrial output fell 40 percent in 1990.

According to embassy officials, Romanian government officials all agree on the need to move to a free market economy; the disagreement is on how to achieve that goal. A structure is now in place to help transform the economy, including laws on privatisation, foreign investment, and land use. With many natural resources (e.g., minerals and petroleum), good agricultural lands, and a well-educated work force, Romania's potential for future growth is good, in the view of the embassy.

Petre Roman, Prime Minister; Adrian Severin, Deputy Prime Minister; and Adrian Nastasi, Foreign Minister

The Prime Minister opened the meeting by noting that there had been major changes, not just in Romania but elsewhere as well. The latest events in the Soviet Union—the failed coup—show the world's progress toward freedom, market economics, and toward the United States. (Prime Minister Roman resigned in September following massive demonstrations in Bucharest.)

The Prime Minister described efforts to privatise the economy. Two laws have been enacted: (1) the land law, for agriculture, under which 80 percent of Romania's available farmland has been privatised; and (2) the privatisation law, for industry, real estate, and other real property. The goal is to complete privatisation in these areas in seven years. A pilot program for privatisation has been approved by parliament, with 35 of the largest enterprises to be privatised first.

Techniques for privatisation are clearly established in law. Privatisation has begun with small- to medium-sized enterprises in trade and tourism, which are relatively easy to transform and more urgent. However, the Prime Minister noted the need to stimulate greater private production of consumer goods, in lieu of the current heavy focus on services. As to larger enterprises, the state has been converted to a shareholder, and 30 percent of the shares of enterprises will be given to citizens over the age of eighteen, through mutual funds. This process hopefully will be concluded in about one year and will bring about the beginnings of a stock market. A social safety net has been put in place to help reduce social tensions during the transition. Unemployment compensation and programs for retraining and education of the unemployed have been adopted. Government construction of highways and telecommunications facilities also will utilize unemployed workers.

The Prime Minister described other aspects of Romania's economic reform program, including price liberalization, tax law revision, and Romania's discussions with the EC on associate membership. Congresswoman Johnson noted the importance of adopting market pricing on exports, in order to avoid problems of dumping. Prime Minister Roman agreed that Romania should avoid dumping and added that all subsidies on exports have been cut.

With respect to Romania's MFN status, Congressman Pease noted the importance of full participation of the opposition parties in elections, their access to the media, and civilian control over security forces. The Prime Minister replied that because Romania has more than 500 newspapers, access to the print media is free. The opposition has full access to television, he said, but there still is criticism in this area. In order to address these complaints, he supports enactment of a bill currently under debate by parliament guaranteeing free private access to the television media.

As to the failed coup in the Soviet Union, the Prime Minister and Foreign Minister stated that it had been a very important test for Romania's commitment to democracy and market forces. They viewed the suspension of the communist party in Russia as a very positive development. While the new configuration of the U.S.S.R. is not yet known, it clearly will have a big effect strategically and economically on Romania. The collapse of Romania's trade with COMECON countries; the need to pay high, hard currency prices for imports of energy and raw materials from the U.S.S.R.; and the reduction of Romania's exports to the U.S.S.R. as the Soviet economy deteriorated have hurt the Romanian economy badly. They felt there are likely to be further problems with the Soviet Union. They have told NATO that Romania needs a friendly umbrella from that organization, so Romania is not in a European "no-man's land" between Yugoslavia and the Soviet Union.

Finally, the ministers addressed the question of the desire of one Soviet republic—Moldavia—to secede from the Soviet Union and rejoin Romania. They noted that a secret Nazi-Soviet pact in 1939 had split the state of Moldavia; and half of it—Moldava—had been incorporated into the Soviet Union. Moldava has fought Soviet domination since then, and the people continue to speak the Romanian language. When the people of Moldava ask to rejoin Romania, we will agree, the ministers said.

Minister of Trade and Tourism, Constatin Fota

Congressman Pease opened the meeting by noting that the delegation's mission is to improve prospects for trade. We are glad to see increased U.S. exports to Romania but distressed by falling Romanian exports to the United States, and elsewhere, the Congressman said. He noted that Congress will be considering any Administration recommendations on Romania's MFN status, adding that there was a long and controversial history over the issue and that Congress is increasingly involved in the decision.

Minister Fota responded with a lengthy and very detailed description of the steps Romania has taken, and is planning, to make a successful transition to a market economy. He expressed appreciation for U.S. support for Romania's reform efforts. He said that the most important aspect of reform and economic development is to destroy the former centralized economic system. Establishing a new legal basis for a market economy is the government's primary concern. He noted that 80 new laws had been approved by the parliament, but that *there still is no concrete plan for restructuring the economy or for privatising industry.* He said that reformers still are facing pressures for continued centralization from people in ministries who do not want to lose power. In addition, he noted that managers of the more than four thousand enterprises, which already have been converted from state control to autonomous commercial societies, still were looking for central direction even for such matters as the pricing of products. The managers also continue to ask for state subsidies and support.

Minister Fota described specific reform measures already adopted by the Romanian government. Price liberalization has resulted in virtually free prices, except for thirteen basic commodities, such as bread. Wages also have been liberalized and a minimum wage established. As a result of these changes, inflation has risen sharply since October 1990, when wage and price reform began. Overall price inflation was 244 percent through August 1991, and wage inflation was 290 percent. Price and wage indexation now has been adopted, in order to try to control future increases. The state monopoly on trade has been rescinded, and each autonomous society (firm) can deal directly with foreign partners. Although Romania does have import tariffs, it wants foreign competition. Imports are free in principle through a system of automatic import licensing, as long as the importer has foreign exchange. Some restrictions are being maintained on exports, due to short supply of such items as raw materials and food, but they will be liberalized as the situation improves. The Minister noted that important steps have been taken toward currency convertibility. Finally, he said that many small- and medium-sized enterprises (more than 152,000) had been established with private capital, but that they dealt mostly with trade and tourism. Authorities would like to see more private activity focused on the production of goods, particularly consumer items.

Minister Fota then described Romania's current economic situation. 1990 was a bad year: industrial production was down sharply; exports were down 40 percent; and imports up 13 percent. Romania's trade with COMECON countries has collapsed. He pointed to some positive signs in the picture, however. The role of the private sector in production has increased and now accounts for 10 percent of total production, 15 percent of internal trade, and 12 percent of external trade. Private sector production of agricultural products—especially fruits and vegetables—already exceeds state production levels, and in many cases at lower prices as well. Romanian firms are exporting without subsidies. Inventories of textiles, shoes, and other products are increasing.

The Minister noted that the energy sector, followed by agriculture, will be the most important ones for Romania's economic development prospects. He expressed a desire for U.S. assistance—both technical, in order to adopt new production methods, and financial. He indicated that Romania's light industries (e.g., textiles, footwear, and glassware) already were relatively competitive on world markets but needed to become more so. He expressed the view that two to three years would be required to make the transition to a market economy. However, he noted that the hardest task is to change the attitude of the people, who still are looking for centralized direction.

Turning to United States-Romanian trade relations, Minister Fota said that improved relations in that area are essential for Romania's economic development. He noted the sharp drop in 1991 in both exports and imports, which he said stemmed from the general decline in Romania's economic activity and the lack of MFN status. MFN status is important not only for political reasons, but for commercial reasons as well, he said. He expressed appreciation for the President's recent waiver of the Jackson-Vanik provisions, noting the importance of trade credits to Romania's trade prospects. He added that Romania hopes to conclude a new agreement with the U.S. Overseas Private Investment Corporation (OPIC) very soon, which he views as vital for increased U.S. investment in Romania.

Chairman Gibbons closed the meeting by noting that in order to restore Romania's MFN status, a new trade agreement must be agreed to, with improved provisions on intellectual property rights and business facilitation; and there must be greater movement toward a freer economy and greater political freedoms. He added that the delegation would like to see negotiations begin as soon as possible. Minister Fota expressed the hope that Romania's MFN status could be restored by 1992 in order to promote greater U.S. trade and investment in Romania.

Concluding Briefing by Ambassador Green

Ambassador Green met with members of the delegation immediately prior to their departure. He urged the delegation to support restoration of Romania's MFN status after the autumn 1991 elections, if those elections are free and fair and access to the media is good. He said that America means everything to the Romanians and urged Members not to forget Romania as they travelled to the U.S.S.R. He said Romania has suffered more than any other country in the eastern bloc and should be granted MFN status this year if at all possible.

U.S.S.R.[1]

REPUBLIC OF GEORGIA

The delegation visited Tbilisi, Georgia, from August 31 to September 3, 1991. U.S. Embassy officers from Moscow assisted the delegation, but did not brief members on developments. The delegation met the leaders of the noncommunist government, including the President, Prime Minister, and the Parliament. Discussions with the business and agricultural community also took place.

With a population of 5.5 million, Georgia sits in the Caucasian mountains on the Turkish border. It is a major producer of tea, wine, coal, and manganese. Manufacturing and a growing tourist industry also contribute to the economy. In part because Georgia has a separate history and language, a strong nationalist and independence monument exists in the Republic. Having declared independence from the Soviet Union in March 1991, Georgian leaders sought Congressional support for U.S. recognition of Georgian independence. In addition, officials stated their desire for separate customs controls and their own currency. Leaders also claimed Moscow's central government imposed an economic "blockade" on Georgia and cut off supplies following their drive for independence. Georgia was one of the six Republics that refused to sign the All Union Treaty ("9+1") negotiated prior to the coup.

Georgia has also entered into separate trade and cooperation agreements with other Republics, such as Armenia, Azerbaijan, and Estonia. Georgians emphasized the long-standing freedom of religion in Georgia, whereby members of the Georgian Orthodox Church, Muslims, and Jews have lived side-by-side over the years without oppression.

On September 2, demonstrations against the government of President Gamsakhurdia broke out in the streets of Tbilisi. At the time, it was not clear whether the demonstrations were led by opposition groups seeking to restore Georgia's relationship to the center, or merely directed personally at the President of the Republic for his alleged tight controls on dissent.

President Zviad Gamsakhurdia, Republic of Georgia

The President told the delegation he favors complete independence and sovereignty with recognition from all countries, presuming that this will solve all Georgia's problems. He believes any domestic opposition is from "troublemakers" who would subvert democratic rule.

President Gamsakhurdia was elected on May 26, 1991, running on a Round Table-Free Georgia ticket. He had been chairman of the Helsinki Watch Georgia branch and was jailed for his dissident views on several occasions. Independent Georgia seeks diplomatic relations with the United States and other nations, as well as membership in the United Nations, and the European Community. President Gamsakhurdia stated that they will not accept any

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[1] The proposed name changes of the former Union of Soviet Socialist Republics, such as Union of Soviet Sovereign Republics, had not been officially consummated at the time of the Codel visit.

Soviet Treaty of Union, economic union or other relationships involving interdependence with the U.S.S.R. or any other republics.

He claimed that those who oppose the President, including former leaders in his government, are considered alien forces to Georgia's democracy and must be suppressed by force, if necessary. Criticisms from the West are also considered subversive.

President Gamsakhurdia drew from a paper presented to Chairman Gibbons, Helsinki Union of Georgia: Economic Recovery Program of Independent Georgia, 48 pages, typed. The major arguments presented in that paper are intended to support the theses that (1) Independent Georgia is an economically viable nation; (2) the current economic problems of Georgia are largely a result of two centuries of imposed strategies from Moscow and may be solved by independence. In addition, it was noted that Georgia has a long tradition of independence and civilized development. This tradition goes back in history, far beyond the recorded history of the Slavic north. While always imperilled by hostile neighbors, Georgia has retained its culture, its identity, and its ability to function as an independent nation.

Chairmen and Members of Committees of Supreme Council of Georgia (Foreign Relations, Budget and Finance, and Economic Reform)

The Parliamentarians noted that greater ties with the West are important, and Georgians hope for technical and other assistance, but Georgia can develop economically only if its political independence is recognized by the West, the Soviet Union, and international organizations. Western relations, assistance and investment are all sought and welcomed.

Prime Minister of the Republic, Bessario Gugushvili

Economic independence of Georgia can be managed with "fair" commercial ties, including the prices paid for wine and tea exports and imports of oil, gas and grain. An economist by training from a family of economists, the new prime minister does not fear world market pricing as he feels that Georgian exports have been underpriced in the past, and future terms of trade should not adversely effect future Georgian prosperity.

Georgia Business Representatives

Georgian legislation is said to be favorable for foreign investment: tourism, wine, and tea culture are major sectors. Without specifics, generally favorable climate for Western profit from investment in Georgia's industry and agriculture was averred.

Privatised Farm

The President suggested the Codel visit the closest privatised farm to Tbilisi. His appointed prefect conducted the short tour of a farm in its very early stages of reform. While it was stated that traditional Soviet concentration of land holdings is now being broken up under by privatisation—the pace and impact of this privatisation process are as yet uncertain.

The limited exposure to the political process in Georgia raised questions in the delegation on the state of pluralism in governance, and the progress toward democracy. Likewise, the high degree of interdependence fostered by previous governments and the relative weakness of the trading position of Georgian exports, e.g., wines and tea for energy, machinery and grain, raised questions on the viability of a closed, albeit independent Georgian economy.

MOSCOW

The delegation was in Moscow from September 3 to September 6, 1991, meeting with the post coup leaders. Extraordinary sessions of the Congress of Deputies that created a new U.S.S.R. Transitional Government and disbanded the old government absorbed the attention of all the leadership and the delegation. The delegation held wide-ranging talks with the new Soviet Foreign Minister, economic policymakers, and parliamentarians. Issues relating to the reciprocal extension of most-favored-nation (MFN) status and the United States-Soviet Trade Agreement transmitted to the Congress for ratification on August 2 was discussed. Assurances were received that it would be duly ratified and implemented by the Soviet side.

Embassy Briefing

James Collins, U.S. Chargé d'Affairs and embassy staff briefed the delegation frequently during the visit on the dynamic and historic events. Individual delegation briefings by political, economic and agricultural officers of the embassy provided specific information on developments in these areas.

The embassy took over as host of the delegation when the original host, the leadership of the Supreme Soviet, was implicated in the abortive coup. This was a stressful time for the embassy as they were on the front line of the coup action, some thousand yards from the "White House"—Yeltsin's Russian Republic offices. Their support was greatly appreciated.

Some of the highlights discussed in the series of briefings were:

- *The trade agreement transmitted to the Congress could be ratified by the newly constituted Supreme Soviet and effectively implemented.* The issues relevant to U.S. ratification, such as Baltic republic independence, aid to Cuba, emigration, and human rights under the new governance would be demonstrated at the Moscow CSCE meeting in the week of September 8.
- *The U.S.S.R. transitional government structure of September 5, 1991, is a logical approach to the new power relationship in the region and the needs for democratization and development of competitive market economies* [see chart at end of chapter]. Most of the power has shifted from the center to the republican leaders and to the elected parliaments. The new power centers are the Russian republic headed by Boris Yeltsin and the RSFSR parliament and the Kazakh republic headed by Nursultan Nazarbayev, the leader of the Moslem republics and local units. The new Moslem "majority" in the State Council was responsible for the first vote of the transitional government, a two-thirds majority for Baltic Independence.

  The Inter-Republic Economic Committee represents the focal point for proposals of a new economic union or commonwealth. Russian, Kazakh, Ukrainian, economic power in oil, gas and other natural resources and grain, may provide some effective leverage toward market pricing, privatisation, monetary stabilization, and general reform [see appendix M for a summary of the U.S.S.R. Transitional Government Structure].
- *Winter 1991–92 is expected to be a crises time for survival of the new governments and progress toward reform.* Possible Rus-

sian problems with shortages of food, medicine and coal for the major European and Siberian cities of the RSFSR, e.g., Moscow, St. Petersburg, Ekaterinburg, and Omsk. Aid from abroad may be channeled through local city governments and voluntary associations, e.g., Mayors Popov in Mocow and Sobchak in St. Petersburg, with cooperation of Red Cross, churches, and other groups. Deputy Mayor of Moscow, Yuriy Luzhkov, is the Soviet point man on this issue as member of the four-man Inter-Republic Economic Committee. That group headed by former Yeltsin Deputy, Ivan Silaev, Arkady Volskiy—also President of the Scientific Industrial Union—and Grigoriy Yavlinskiy—also Director of the Economic Policy Institute. Assistant Secretary of the U.S. Department of Agriculture, Crowder, was due in after the Codel visit to assess the food needs.

- Outstanding issues such as control of currency, fiscal and budget policy and responsibility for payment of foreign debts are among thorny issues that will be problematic in development of a functioning economic union. [Summary of the foreign debt issue from Soviet discussion is provided in appendix O.]
- With respect to U.S. commercial interests, the protection of intellectual property rights, payment of arrears on U.S. business debts and finding the focus of decisionmaking authority are all key issues. The potential for U.S. business is huge. However, our foreign trading partners are already establishing themselves in the Soviet market. As individual republics gain more autonomy, U.S. companies should consider expanding contracts directly with republic and local authorities.

Academician Stanislav Shatalin, Director of the Institute for Economics, Scientific Technical Progress, and Prognosis of Academy of Sciences

The director of the 500-day program jointly requested by Gorbachev and Yeltsin opined that the coup would not have occurred if the plan were implemented when presented in September 1990. Shatalin now supports the earlier plan but also has proposed a commonwealth plan, an approach similar to the European Community 1991 [translation of Izvestia article discussed with Codel, see appendix N]. A common currency of account, the ruble, might be tied to republic currencies and even Central European currencies. President Gorbachev might thus be "an eastern Delors."

Mr. Shatalin thanked the United States for its support during the coup; the support of the press and Congress was particularly important. He stated it was easier to be on the barricades than go through the "Chinese water torture" of dealing with the current political disarray. He further stated that the reality of the situation was that the "U.S.S.R. no longer exists."

Shatalin outlined his proposal for a loose economic "commonwealth" that all republics have indicated they are willing to sign, as long as they remain "completely independent." The army and all nuclear weapons would remain under central control, although each republic would have its own militia. The highest representative organ would be some type of Council of the Commonwealth, and the highest executive body would be a Security Council comprised of a President (Gorbachev) and the heads of each republic. Two or three would hold joint authority to "push the button," e.g. deploy nuclear weapons. Shatalin also indicated he had spoken with the Presidents of Poland, Hungary, Bulgaria and with the President of the EC to gauge their interests in some sort of economic community.

Shatalin noted that on September 1, 1990 he had put forward the 500 Day Program, which was rejected for the most part. Now, on September 1, 1991, he has tabled the proposal for economic commonwealth that is finding acceptance. "There is a God," he stated. There would not have been a coup if his earlier proposals had been adopted. Shatalin said that his "former friend Mr. Gorbachev" had much to be held responsible for in the fact that the coup was attempted by "criminals" surrounding him.

If the commonwealth plan is adopted, Shatalin sees no need for a strong central government, except during a one or two year transition period. He noted that Lithuania and Georgia were the first republics to support his plan and he viewed this as a good sign that wider acceptance could be achieved. He said the commonwealth could be based on separate currencies and separate banking systems in each republic; eventually, a central currency, like the ECU, would coexist with the local currencies. Food and other shortages might be so severe over the winter that people would lose patience with reform. Shatalin expressed confidence that the people would likely endure nothing worse than the shock of Pavlov's recent monetary "reforms" when the 50 and 100 ruble notes were replaced. He also indicated that they could cut expenses for the army and the KGB and that Western aid would help soften the hardships.

The new government intends to handle the U.S.S.R.'s massive and growing external debt, but how the division among the republics would be determined and how the republics would be persuaded to accept responsibility for payment of that debt appeared not to have been discussed extensively as yet, Shatalin indicated that the State Council likely would make such decisions and "professionals" would determine the proper division among the republics [see appendix O and comments of Yavlinskiy, below].

Decisions have not been made as to how to establish common rules for banking, intellectual property rights protection, foreign investment, etc. to be accepted among all the republics in order to conduct normal trade and other transactions with each other and the rest of the world. Shatalin noted that they intend first to address the more critical needs of food, energy (heating) and transportation in order to get through to the spring. However, he doesn't want to wait too long, because he believes that if the economy is freed up (including decontrol of prices), then things will get better. Yavlinskiy, now in charge of implementing economic reforms, is working with an "illusion" because there is no longer a U.S.S.R. In a few months, the political atmosphere will be more settled, and it will be clear that the old order has been replaced by the new commonwealth concept.

The issue of the trade agreement and the legislation to extend MFN currently pending before the U.S. Congress is not a pressing problem although lowering tariffs is essential to normalizing trade relations, particularly with Europe and the United States. The commonwealth (probably its Economic Committee), as the successor to the trade agreements obligation, should put the agreement into effect and apply to all the republics separately.

Shatalin agreed that control of the borders between republics and at the perimeter of the commonwealth is important and that one border should be established or it would take years to normalize trade relations; his parallel is the EC in that the Commission would speak for all the member states in international economic and monetary fora (such as GATT and IMF) as well as in negotiations with the United States, although it should be noted that while the EC does represent the community in GATT it does not represent the member countries in the IMF or most other multilateral economic organizations. However Shatalin stated that there was no agreement as yet on a common customs space, because discussions had not progressed that far.

Shatalin and Shevardnadze had attempted before the coup to form a new political party in opposition to Gorbachev. Everything was in a state of flux and it was not clear how parties would emerge and align themselves, except that they would be primarily "democratic".

Food and energy shortages require Western aid. Shatalin admitted the coal and oil supplies were down and harvests were lower, but believed that energy [coal] for heating was the most severe problem. Food aid would probably help, but it would be more difficult to secure energy assistance. He noted that in the past the West, particularly the United States, had outlined numerous conditions tied to economic assistance. Shatalin believed this was the correct policy in order to ensure exactly where aid was going; he did not consider this interference, but merely "real politics".

In responding to the observation that Assistant Secretary of Agriculture Crowder would be in Moscow soon to assess food aid needs and that the U.S. Embassy was having difficulty finding out who to speak with on food aid, Shatalin pledged to organize information for the U.S. embassy and also offered to organize meetings on food aid.

Arkady Volskiy, Vice Chairman of Inter-republican Economic Committee and President of the League of Scientific and Industrial Associates of the U.S.S.R.

Volskiy has a long history of association with heavy industrial management, including the military industrial complex, and party activities for Gorbachev. He served as a special trouble shooter in the Nagorna-Karabakh dispute between Azerbaijan and Armenia. He is also a founding member with Alexander Yakovlev and Eduard Shevardnadze of the Social Democratic Party and an early opponent of the coup. His responsibilities in the new inter republican economic committee will be especially for industry. He has long favored large scale privatisation and entrepreneurship. He appears to strongly support Western investment and joint ventures in industry throughout the republics.

Volskiy fears that a harsh winter will pose severe economic and political problems. A mild winter would be a welcome "act of God" but is not expected. Because of the coal strike only 80 percent of the coal needed for steam electric power stations, that provide both urban heat and electric power, is available. With a harsh winter the shortfall would be substantially more than a 20 percent mild winter deficit. His strong approval of Mrs. Thatcher's "breaking the coal miner union" reinforced his reputation as a strong believer in market reform but by less than democratic means.

Ruslan Khasbulatov, Acting Chairman of the RSFSR Supreme Soviet

The new organization of the Union and Republics was just approved by the Chamber of Deputies September 6, 1991, as we met. The continued centralization of defense, foreign policy and foreign economic policy, were discussed. The "super republic," the RSFSR, is clearly the major winner in the reallocation of power but will use that power in democratic control. The RSFSR has 52 members in the new Council [Soviet] of the Republics, in contrast to the 20 members for other republics, to allow representation for the many autonomous republics and disparate ethnic groups of the RSFSR. Khasbulatov is himself a Chechin, one of the small ethnic groups most persecuted under Stalin by mass deportations and treatment as a "traitorous" ethnic group during the war against Nazi Germany.

The RSFSR had taken the lead in privatisation, although Gorbachev had earlier opposed private property. However privatisation of land is slow, just 25,000 private units to date. Debt obligations of republics must be met; RSFSR will assume 67 percent.

Khasbulatov has represented Yeltsin, the Russian Republic, and the U.S.S.R. in many foreign policy discussions. He left soon after meeting with the delegation for Tokyo to address the Northern Territory, Kurile Islands, issue with the Japanese.

Viktor Yaroshenko, RSFSR Minister of Foreign Economic Relations

The central point made was the power of the RSFSR in resources and the implicit subsidy provided by Russia to the other republics in the past will end (a glass of mineral water and a glass of Russian oil currently sell for the same price). Russia should dollarize its interrepublic oil trade and go to world market prices in January 1992 (as they did for Central and Eastern Europe in January 1991). From that position of strength, Russia could discuss the terms of trade in a new economic union.

This view underlies the economic approach feared by many republics as the Russian republic accumulates and uses it new found power. The concern of the "ugly Russian" underlies some of the strong sentiments in many republics both Slavic and non Slavic for independence from both the center and the Russian Republic. Moreover, this anti-Center, anti-Russian sentiment considers all problems—political, economic and security—as manifestations of past central, Russian policy for which they bear no responsibility nor obligation, e.g. the Afghan War and foreign debts. In short, Russians such as Yaroshenko feel that the Russian center has long been required to provide implicit subsidies—aid without decisions or credit—to all the republics as well as foreign client states, and they want that policy ended. This Russian first, anti-aid sentiment places some in the Russian leadership on a collision course with republican leaders as development of an economic union or a modified political center proceeds.

Grigoriy Yavlinskiy

The initial author with Yevgeni Yasin of the 500 day plan, directed by Shatalin, said he now has a third chance to persuade political backers in the center and the republics, including Gorbachev and Yeltsin. His second attempt was with Graham Allison in the "Window of Opportunity" study. Yavlinskiy is expected to be in charge of economic reform in the new interrepublic Economic Council (a replacement for the Council of Ministers) chaired by Ivan Silaev [see appendix L].

Unlike Yaroshenko, Yavlinskiy argued for a political consensus with the republics on participation, on terms of association and procedures for decisionmaking. He proposes a step-by-step political involvement so that elected representatives of the republics will be responsible for decisions and their constituents' interests. This would be a process like the European Community process initiated by the Treaty of Rome and continued in Europe 1992. The approach would initially be faced with the problem of core republic agreement including the Russian, Kazakh, Byelorussian, and Ukrainian republics. Yeltsin and Nazarbayev can probably deliver the first three, the Ukraine is a big question mark. The issues this core will need to initially face are in monetary policy a common currency area and single independent central bank; in commercial policy low tariffs in a customs union; integrated economic structures with interdependence across republic boundaries in energy, raw materials, components for manufactured goods and grain. Participation in the CORE could leave member republics free to decide on expenditure policies, social safety net, tax policy and antimonopoly legislation, but the common monetary policy would require balanced government and enterprise budgets.

Coordination and membership of other republics and formal alliances with East and Central European nations would be a part of the Economic Union program. All of the republics and allied countries rely heavily on the CORE for energy, grain and markets for their industry and agriculture. Georgia for example would have economic difficulty in attaining prosperity if the Russian market for their tea and wines expected to be competitive in trading for energy and grain. They would also face the problems current in Hungary, Czech and Slovak Republics and Poland as they look to a renewal of the Russian market for increased output, reduced unemployment, and more secure energy supplies and reasonable terms of trade.

Boris Pankin, Minister of Foreign Affairs for the U.S.S.R.

The new Foreign Minister was the only Soviet Ambassador to come out publicly against the junta, in Prague, August 20, 1991. He described the new agreements [appendix M] as the "birth of a new nation". His appraisal was the most outcome view of the proceedings of the Congress of Deputies session received by the delegation.

He clearly and unequivocally stated that the trade agreement would be ratified and implemented by the Soviets without delay. He made favorable comments on the end of Soviet aid to Cuba and on Baltic independence, a peace treaty with Japan and the then upcoming CSCE meeting on human rights. On Cuban aid, he found its relationship inappropriate, ineffective and immoral foreshadowing the Gorbachev formal announcement that Soviet military forces were being withdrawn from Cuba; he implied further military and economic aid—including oil supplies—would be terminated. On human rights, he is the first Soviet official to accept the rights of the CSCE board on international agreements "to intrude in international affairs" of a country in violation of the Helsinki agreements including the Copenhagen human rights agreement of June 1990. This includes the establishment of the rule of law and legitimizes the Helsinki Watch committees that were such a lightning rod for past Soviet governments.

Minister Pankin thus took the Gorbachev-Shevardnadze position on "new thinking" foreign policy and CSCE conformance substantially forward to imply closer identity of the post coup Soviet Union with Western foreign policy.

Pankin called for political and economic integration with Western nations and institutions and integration of the Soviet Union into the global market and democratic systems as follows:

- *All the new governments—inter-republic, associated and independent republics, seek membership and assistance from all organizations and countries represented in the G–7.* Conditional assistance, especially from the Bretton Woods institutions, EBRD, OECD, and EC, is sought and seems appropriate. Active consideration should be given by the Bush Administration to supporting membership in the IMF and World Bank as early as necessary conditions can be met.

  The support of the newly constituted U.S.S.R. government could make its survival and successful reform possible. The necessary retention of central military and foreign policy control could facilitate further arms control and international agreements in our material interest. At the same time, proceeding expeditiously to recognize and bring independent republics into the international community of nations and support their efforts to develop democratic market systems should run apace.
- *Foreign investment will flow into the highly profitable areas of natural resources development with the development of political stability and market reform.* At the inter-republican center and with independent republics our governments should encourage and foster this development by reducing the political risks and uncertainties wherever possible. In the end, Western investment and private enterprise involvement in the systems in transition are likely to be the key to survival and success.
- *All restrictions on bilateral commercial relations should be eliminated:* tariff and government credit restraints; repeal of the Byrd and Stevenson amendments; and elimination of export controls and COCOM.

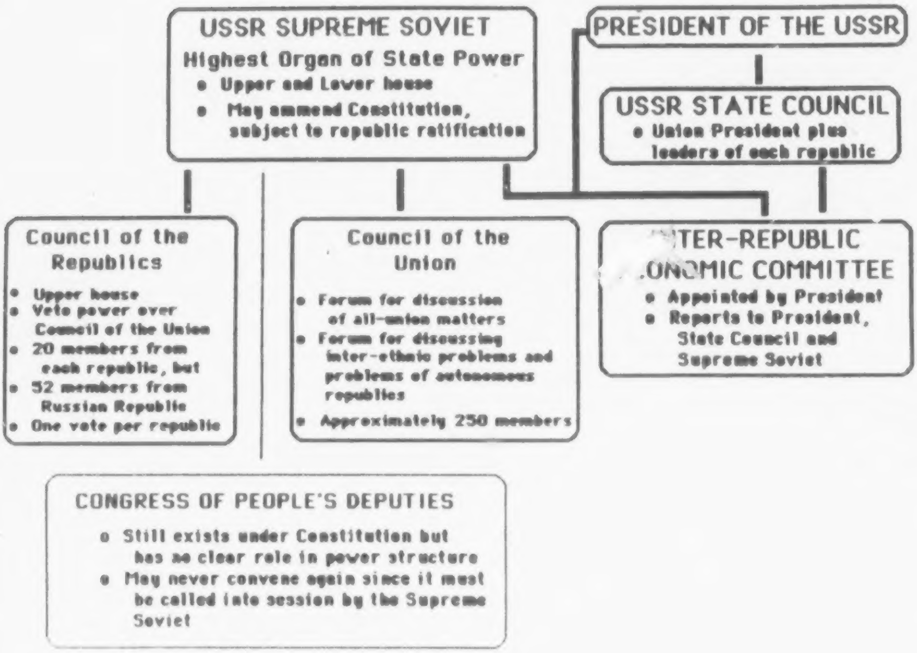
Other individual meetings by members of the Codel included sessions with Academician Oleg Bogomolov, Director of the Institute for Eastern Europe and International Research; Yegor Gaydar, Director of the Institute of Economic Policy; Vladlen Martynov, Director of the Institute of World Economy and International Relations; Nikolay Shmelyev, Senior Economist in the Institute for Study of the United States and Canada; Sergey Stankevich, RSFSR Deputy Minister of Foreign Affairs; and Vladimir Tikhonov, President of the Union of Leaseholders and Entrepreneurs of the U.S.S.R.

All these economists actively opposed the coup and recognized the major shift of power to the republics and the electoral parliaments. While recognizing the significant new opportunity to establish the process of marketization and democratization, each were very concerned about the prospects for necessary progress. All felt Western assistance and investment was necessary but not alone sufficient to the fuller revolutionary changes in economic policies and institutions. Each was very concerned about the winter crisis in food, energy and medical facilities.

One gloomily opined that a disastrous winter might yet be the necessary shock to make the final commitment to democratic markets. At the same time he acknowledged that the process of transformation to a democratic and market system might not survive such a crisis and another right-wing coup would still be possible.

USSR TRANSITIONAL GOVERNMENT STRUCTURE

SEPTEMBER 5, 1991



USSR SUPREME SOVIET

Highest Organ of State Power
- Upper and Lower house
- May ammend Constitution, subject to republic ratification

PRESIDENT OF THE USSR

USSR STATE COUNCIL
- Union President plus leaders of each republic

Council of the Republics
- Upper house
- Veto power over Council of the Union
- 20 members from each republic, but
- 52 members from Russian Republic
- One vote per republic

Council of the Union
- Forum for discussion of all-union matters
- Forum for discussing inter-ethnic problems and problems of autonomous republics
- Approximately 250 members

[illegible]TER-REPUBLIC [illegible]ONOMIC COMMITTEE
- Appointed by President
- Reports to President, State Council and Supreme Soviet

CONGRESS OF PEOPLE'S DEPUTIES
- Still exists under Constitution but has no clear role in power structure
- May never convene again since it must be called into session by the Supreme Soviet

NOTE: The Congress of People's Deputies also passed a comprehensive Declaration on Human Rights and Freedom, however, individual Republic laws have primacy within the republics over All-Union laws so that rights listed in central legislation may not have force within the republics

[PREPARED BY U.S. EMBASSY—MOSCOW]

REPUBLIC OF ESTONIA

The delegation travelled to Tallinn, Estonia, on September 6–7, 1991, the first days of new-found freedom for that Baltic state. The United States first recognized Estonia as an independent state in 1922 and signed a trade agreement extending MFN status in 1925.

Estonia was incorporated involuntarily into the Soviet Union in 1940, as a result of a secret German-Soviet protocol assigning Estonia (and the other Baltic states of Latvia and Lithuania) to the Soviet sphere of influence. The U.S. Government never recognized the Baltic states as a part of the Soviet Union.

In 1990, the democratically elected government of Estonia declared Estonia's independence from the Soviet Union. On September 2, 1991, following the failed coup in the Soviet Union and the subsequent establishment of a new transitional government in that country, the U.S. Government formally recognized the independence of Estonia [see appendix K]. On September 6, 1991—the day the delegation arrived in Estonia—the State Council of the transitional Soviet government recognized Estonia's independence, thereby ending the involuntary incorporation of that country into the Soviet Union.

Ulo Uluots, Head of the Commission for Economy of the Supreme Council

Members of the delegation opened the meeting by saying they rejoiced in the news of Estonia's independence. The delegation then had an extensive discussion of the economic reforms undertaken in Estonia since election of the parliament in 1990, in the first democratic elections since 1940.

Commissioner Uluots said that the primary task for the government was to move from a centrally controlled socialist economy to one based on free market principles. More than 120 laws have been passed or are being drafted to accomplish that goal, he said. The basic framework for transition already is in place—e.g., a new tax system and budget structure—and a draft law on private property is in the final stages of consideration by the parliament. The government hopes to have specific operational programs in place by the end of 1991. Laws on bankruptcy, antitrust, and mortgage still need to be developed. A law on land reform is being developed, with the goal of liquidating state farms and creating small family farms.

Mr. Uluots noted that just that morning, the Soviet Union had granted Estonia its political independence. However, he added that Estonia still uses rubles and is dependent on the Soviet central bank. Estonia is planning to issue its own currency backed by gold and has contracted with a U.S. firm for the printing of new bills. He said Estonia will seek the return of gold held by western nations since 1940, but noted that the United Kingdom and Sweden already had returned Estonia's gold reserves to the Soviet Union. He also said the current inflation of the ruble is causing serious problems for Estonia's economy. If the role of the ruble in Estonia's economy is not reduced, economic reforms will not be effective. He expressed the view that the transition to a market economy might take five to eight years. Estonia hopes to join the United Nations, the International Monetary Fund and the World Bank; and would like wealthier countries to extend credit guarantees to help Estonia reform its economy. He pointed out that Estonia ranked as the 14th wealthiest country in the world prior to World War II, but now, as a recent part of the Soviet Union, it ranks about 70th.

Congressman Schulze responded that while Estonia's challenges are great, members of the delegation want to help in any way they can. He noted that there are two ways that Estonia's MFN status with the United States could be restored—by starting anew and negotiating a new trade agreement under title IV of the Trade Act of 1974; or by using the 1925 trade agreement as a foundation and upgrading it. He recommended the latter approach. The Congressman noted that questions inevitably would be raised in Congress about the status of Estonia's efforts to establish its own currency and of its transition to a market economy; he encouraged Estonia to move as rapidly as possible to a market economy. He expressed the delegation's desire to work closely with Estonia and to help make the transition as painless as possible. However, he added that there will be pain; and the United States is not in a position to give money freely, in light of our own economic problems.

Mr. Uluots said it is important to restore Estonia's MFN status in order to help make Estonia's products competitive on world markets. He added, however, that due to reliance on the ruble and the lack of a convertible currency, Estonia currently is dependent on inferior Soviet technology for producing its goods. As a result, Estonia's attractiveness to U.S. traders and investors also is lacking. Therefore, Estonia needs its own convertible currency and access to western credits before MFN status will provide meaningful economic benefits.

In response to a question from Congressman Pease, Mr. Uluots firmly stated that Estonia wants MFN status in its own right, not as a part of the Soviet Union. "Since this morning," he said, "we're not part of the Soviet Union. The Soviet Union is a foreign country." We can talk only in terms of direct agreements, he said, and have even begun negotiations with Russia and other republics on trade and economic relations.

As the West Germans found in the case of East Germany, Estonia's industry probably will be found to be virtually worthless, Mr. Uluots said. Estonia's only real value lay in its natural resources, such as fish and shale oil. Estonia hopes to receive credit guarantees until the new Estonian crown can be created and made convertible. However, due to the Estonian people's willingness to work hard, he felt the guarantees may not even have to be used. He added that Estonia provided a good opportunity for the West. Estonia is a small country, rich in mineral resources, with a skilled labor force and good communications system. If Estonia succeeds in the transition to a market economy with western assistance, it will set a good example for the Soviet Union and help promote democratic forces in the region.

Congressman Jenkins asked about Estonia's natural resources; its agricultural base; and its dependence on imported oil, including the impact on Estonia of paying for oil not only in hard currency, but at world market prices. Mr. Uluots replied that Estonia's primary natural resource endowment is iron ore and shale oil, the latter of which supplies only ten to fifteen percent of Estonia's fuel needs. Estonia is totally dependent on the U.S.S.R. for crude oil, fuel oils, and natural gas. He said that Estonia is potentially self-sufficient in agriculture, but because agricultural products are bartered for imports of Soviet oil, Estonia has a food shortage. Estonia pays $800 million for Soviet oil and other raw materials and sells its agricultural products on world markets for $600 million, resulting in a $200 million deficit just for imports of oil and raw materials. He added that the efficiency of the agricultural sector must be greatly increased to improve Estonia's potential for hard currency earnings. The privatisation of farms, begun two years ago, is a step in the right direction, but more private farms are needed to assure Estonia's self-sufficiency in food, he concluded.

Congresswoman Johnson noted that while western credits and credit guarantees are important, it also is important that Estonia establish new economic agreements with the Soviet Union. She inquired about the nature of any new agreements now being contemplated. Mr. Uluots replied that agreements on the supply and pricing of raw materials were the primary focus at the present time. If Estonia does not get adequate supplies of resources at reasonable prices, their efforts at democratization will fail. He said he believed that eastern Europe will be Estonia's best market, at least in the short-term until Estonia's products are more competitive internationally. He also felt that Estonia will play an important role as an intermediary in East-West trade, due to its location next to Russia and its deep water ports.

In response to a question from Congressman Schulze, Mr. Uluots concluded the meeting with a discussion of Estonia's new tax system, which includes a value-added tax.

Jaak Leimann, Deputy Chairman of the Government

The Deputy Chairman welcomed the delegation on the first day that Moscow recognized Estonia's independence. The challenge ahead, he said, is how to move Estonia into the world economy and be successful in economic reforms and democratization. Mr. Leimann then described Estonia's so-called 3x3x3 program, which had been recently proposed. The plan refers to the time period for implementation of various phases: 3 weeks; 3 months; and 3 years. (A description of the program appears in appendix J.)

The 3x3x3 program consists of seven parts, including the negotiation of temporary agreements with the Soviet Union on border issues, customs, visas, and related matters; the restoration of a unified national economy in such areas as industry, banking, and property; and other matters related to the transition of Estonia to an independent country with a market-oriented economy.

Economic reform measures were adopted in Estonia beginning four years ago, Mr. Leimann said. Estonia now has a nearly fully flexible price system; an independent state budget; independent tax system; and has begun the process of privatisation, especially of small-scale businesses, and decentralization. Many decisions in the latter area must be made over the course of the next three months. Development of a money and banking system is an important question. Estonia now has its own central bank but has an all-union central bank as well; the two must be merged. Estonia still is using rubles but is developing a separate currency, the crown, and has arranged for the printing of bills. The target date for introduction of the new currency is 1992.

Mr. Leimann said an important constraint in the transition of Estonia's economy was the lack of sufficient personnel skilled in the various business sectors. As a result, the government is relying on foreign consultants to help develop its banking system, and has the names of experts to develop industries which may be internationally competitive, such as furniture. Mr. Leimann is a professor of industry and management, but he hopes Estonia will receive foreign technical assistance in such areas as teaching, business training, and accounting. He added, however, that the Estonian people will need to learn by doing, not just through academics.

Congressman Pease, speaking for the delegation, replied that the Members rejoiced at being in Estonia on its first day of freedom. He expressed hope for Estonia's success and a willingness to explore ways to help, especially in the area of trade. He noted that the United States-Soviet trade agreement was pending before the Committee on Ways and Means and applied "without prejudice" to the Baltic states; Estonia's recent independence clearly would have implications for its trading relationships. Mr. Pease asked whether Estonia likely would associate itself with the new economic grouping that would replace the former Soviet Union. He concluded by noting that the United States would prefer to continue dealing with a new Soviet Union that entailed one body, especially in the area of trade, as with the European Community (EC).

Mr. Leimann replied that Estonia is trying to be flexible in organizing its trade relationships. Since August 1990, the prime ministers of the Soviet republics had met five times to negotiate agreements among the republics. Estonia is negotiating with its major trading partners—Russia, Ukraine, the other Baltic states, and Byelorussia—to establish a framework for trade in strategic items, such as fuel and gold, in which state control will be maintained. The question of pricing of those items would be discussed at the next meeting. All other goods would be traded at the level of the firm, outside state control or direction. He said that Estonia would like to diversify its trade more toward western markets. Textile products likely would be competitive in the EC, but the EC maintains import limitations; he hopes to discuss those restrictions with the EC. Markets would have to be found for other products as well.

As to Estonia's relationship with the new economic union being created from the former Soviet Union, the prime minister that day was in Moscow discussing the issue. Estonia would have three options; it could become a full member, associate member, or a part-time member. Ideally, Estonia would like to maintain horizontal relationships even with those republics that choose to become a part of the new union, especially in the area of trade. Estonia also would like to maintain linkages with Moscow in some areas, such as science and technology.

Estonia's independence and the question of linkages with the Soviet Union in some areas would depend on the support and assistance of western countries, Mr. Leimann said. Estonia is willing to cooperate with various associations, including Nordic, European, and Soviet ones. Some fields in which there is pressure on Estonia to develop relationships with the Soviet Union include fuel/energy and raw materials. In both of those areas, Estonia is dependent on the Soviet Union; if they have to buy at world market prices, Estonia will move sharply into deficit. In addition, enterprises in Estonia are importing oil and raw materials from the Soviet Union at subsidized prices and selling their output to the U.S.S.R. for rubles. If they are charged world market prices, and if hard currency is required, those enterprises may have to cease production.

Chairman Gibbons asked about the treatment of the Russian minority in Estonia and whether they consider themselves Russian or Estonian. He indicated that Estonia's treatment of minorities, particularly the large Russian minority, would have an important bearing on U.S. attitudes toward Estonia. Mr. Leimann replied that historically, Estonia's population was homogeneous; now, however, about 40 percent of the population is nonindigenous. The vast majority of that 40 percent has been in Estonia for many years and undoubtedly will be willing to cooperate with Estonia in the future. Estonia is drafting a new constitution, with a targeted completion date of November 15. Mr. Leimann wants international experts to look at it with a view to its treatment of minorities, even though Estonia has no intention of discriminating. He added that there nonetheless may be problems integrating the Russian minority and felt that the law on citizenship and language must be implemented gradually, not abruptly. Up to 20 percent of the Russian minority—which is concentrated in northeastern Estonia—potentially could move back to Russia, but all are free to go; it depends more on the policy of the Russian republic.

Congressman McEwen asked whether Estonia could earn hard currency through the sale of electricity. He also asked what the United States could do to help Estonia. Mr. Leimann replied that Estonia hopes to sell electricity to the Nordics via an undersea cable; but electricity is only one area of potential export growth. Tallinn has a deep port and lies in a good location to take advantage of Soviet trade with the West, so Estonia hopes to develop its status as a trading nation. Tourism and the export of minerals and raw materials, including shale oil and timber, are additional sources of potential growth. Mr. Leimann said he places great hope on young businessmen with new attitudes, adding that one thousand new firms have been established in Estonia in recent years.

As to steps the United States could take to help Estonia, Mr. Leimann said that extension of MFN status was the most important. However, Estonia also would need to rely on Eximbank credits, OPIC, and assistance from the Baltic-American Enterprise Foundation. He indicated that the Estonian government is prepared to establish consulting firms to assist Estonian firms in developing business plans and learning how to export. In some areas, such as food and medicine, Mr. Leimann said Estonia will need direct support. "We're drowning," he said, "and we need to learn a new way to swim." The old way was socialism; the new style is market-oriented economics.

Mehis Pilv, Director General of the State Department for Foreign Economic Relations; Rein Miller, Minister of Finance

The delegation had an in-depth discussion of Estonia's economic outlook with the Estonian government's senior economic officials. Mr. Pilv opened the meeting with a description of Estonia's 3x3x3 program. He noted that although Estonia had accounted for just 0.55 percent of the Soviet Union's population, it accounted for 0.8 percent of its GNP, the highest per capita contribution to Soviet GNP among the republics. Thus, Estonia is more productive than the other Soviet republics.

In recent years, Mr. Pilv said Estonia has enacted its own laws on banking, budget, and other matters, despite some conflict with Moscow. As to international activity, 1,100 foreign enterprises are engaged in Estonia's market: 300 in joint ventures; more than 600 in joint stock companies; 150 with representative offices; and the remainder operating as wholly-owned subsidiaries, with a value of $150 million. Promising sectors for export growth and foreign investment, in Mr. Pilv's view, include pulp and paper; cement; fish products; and high technology products, including computers and biotechnology. Estonia also has been working with a number of U.S. and European organizations and think tanks to assess the prospects for, and needs of, the Estonian economy. One survey by European and American experts concluded that Estonia can be successful in the transition to a market economy.

Congresswoman Johnson thanked the officials for their assessment and noted that the transitional government of the Soviet Union is discussing the creation of a commonwealth or other form of economic grouping of the former republics. She asked about the status of Estonia's discussions with the Soviet Union, including the key issues and controversies in those talks.

The director general and finance minister replied that oil is Estonia's most important import, making an agreement on supply and pricing of great urgency. Also important are agreements on trade in metals, sugar, and other commodities. Direct agreements with the separate republics have been signed, establishing general principles of of trade and economics (e.g., MFN treatment and avoidance of double taxation), and more talks are due to be held. As to more specific agreements on trade in specific commodities, Estonian leaders are uncertain about whether to sign agreements with a new Soviet Union or with individual republics. Talks with the center are continuing, however.

Chairman Gibbons indicated that the Trade Subcommittee would be considering the question of extending MFN status to the Baltic states soon after the delegation's return to Washington. He asked a number of questions related to this matter: Is Estonia in control of its borders with respect to trade and the movement of people? Is emigration, including of the Jewish population, free? Does the Government of Estonia hold any political prisoners? With 40 percent of the population accounted for by Russians, are there laws guaranteeing political and economic rights for minorities?

As to border control, the ministers indicated that Estonia is not yet in complete control, although they expect to be within one or two months, following negotiations with Moscow on the removal of

Soviet troops. As to emigration, no law has yet been enacted (although it is on the list of 200 laws to enact in the future), but emigration is virtually free; there are no restrictions even on highly qualified people. There are no political prisoners. There are no restrictions on the participation of minorities, although Russians may have to know the Estonian language for some jobs. They indicated that Russians are well integrated into the Estonian society, and a law on citizenship is pending in the parliament. Twenty-five percent of the parliament is Russian; two of twenty cabinet ministers are Russian; as are many mayors.

Congressman Schulze urged the officials to consider the experience of Singapore in privatising Estonia's ports. The ministers said Moscow had agreed to turn over control of the ports to Estonia, with control of railroads and other modes of transport to follow. Privatisation of the ports is to be discussed in parliament. They expressed optimism over the prospects for development of the port in Tallinn. That port is relatively modern; is very deep; and Russia has just decided not to develop the port of Leningrad, but instead to use the Tallinn port for its trade.

Congressman Jenkins asked about the existence and nature of pensions for the elderly. The officials indicated that pensions were relatively high in Estonia and now are covered by Estonian law. Previously, all matters related to pensions were centralized in Moscow. Beginning in 1990, Estonia began to pay for pensions out of its own budget, with funds built up through a social security tax of 20 percent on salaries. Estonia was the first republic in the Soviet Union to handle pensions on its own.

Congressman Anthony encouraged the advisers to put an emphasis on water and air pollution control, in order to improve prospects for growth of the tourist industry. He also requested information on likely partners for joint ventures in the food and poultry processing industry, indicating that Arkansas has a strong capability in those areas and potentially could use Estonia as a location from which to supply Europe and the Soviet Union. The officials agreed to send information to the Congressman.

Congressman Pease inquired about the status of Soviet troops in Estonia, asking whether the Estonian government is financially responsible for them and about the likely schedule for their departure. Mr. Pilv replied that there are more than 100,000 Soviet soldiers in Estonia, and the housing shortage in the Soviet Union clearly was an impediment to their quick return. However, an agreement for their departure was to be signed the following week and, he indicated, discussions with Moscow had been positive. Radar and telecommunications stations will remain in Estonia, so some soldiers also may remain. However, if soldiers do remain in Estonia, the government will ask the Soviets to recompense Estonia in hard currency, oil, or other commodities, as the United States does for the Philippines.

Congressman McEwen concluded the meeting by noting that the United States would like to help Estonia in quick fashion. He suggested that the Estonians identify natural resources and other products which U.S. buyers could purchase up-front, with a commitment to help develop those resources in the future. Mr. Pilv replied that he would pass the suggestion on to the prime minister.

Endel Lippmaa, Minister Without Portfolio; and Riho Sild, First Deputy Minister of Industry and Energy

Congressman Coyne opened the meeting by asking what the United States could do to help Estonia. Minister Lippmaa replied that their goal is to convert to a market economy. They do not want handouts, he said, but the United States could help by working to develop the Baltic region as an intermediary in East-West trade. U.S. extension of MFN status would be helpful, but Estonia wants MFN status to be granted separately to that country, not as part of the Soviet Union. The minister gave the delegation a copy of a letter to Ways and Means Committee Chairman Dan Rostenkowski expressing that view [see appendix I].

Chairman Gibbons replied that the committee does not want to do anything to hamper Estonia's independence. He indicated that he would work to find a way to assure the extension of MFN status separately to Estonia and not as a part of the Soviet Union. He proposed that a separate piece of legislation be introduced to achieve that goal. Mr. Lippmaa replied that that approach would be very acceptable and added that Estonia could agree to accept the same obligations now contained in the United States-Soviet trade agreement awaiting Congressional consideration. Congressman McEwen asked whether the 1925 trade agreement providing MFN status would be an acceptable basis for restoration of Estonia's MFN status. The minister responded that whether or not Estonia receives MFN status is less important than that Estonia "absolutely and unconditionally" be left out of the Soviet trade agreement. Leaders of the other Baltic states feel the same, he indicated.

Congressman Coyne asked whether Estonia had adopted any incentives for foreign investors. Minister Lippmaa indicated an investment tax credit had been enacted and added that Estonia hopes to improve the quality of its production in order to diversify exports to western markets. Currently, 90 percent of Estonia's exports go to Russia and the other republics (with 40 percent alone going to Russia); and only ten percent go to the West. Estonia's main problem is to develop western markets.

Congresswoman Johnson asked about the status of privatisation of large-scale industries. The minister replied that only very preliminary steps had been taken in that area. He noted, however, that Estonia had had only one day (since independence) to begin, but they do intend to move forward on this matter. Members concluded the meeting by making a number of suggestions on ways to help Estonia, including extension of U.S. GSP benefits and OPIC guarantees.

UNITED KINGDOM

The delegation concluded its mission in London, meeting with U.S. Embassy personnel, leading business groups, and government officials. The primary focus of Members' interests was on the British system of value added tax and on the status of the Uruguay Round.

U.S. Embassy Briefing

Ambassador Seitz reviewed the state of the economy in the United Kingdom and noted that the United States and Britain continued to work very closely together on important trade, economic and geopolitical issues. Prime Minister John Major is currently serving as chairman of the Group of Seven (G-7); he is highly regarded and has exercised strong influence in the international community. Domestically, the recession has been deeper and more uniform than in the United States, but business confidence is now slowly reviving and inflation is below 5 percent. Although the election deadline is June, 1992, it is possible that Major will call the election for sometime in November 1991.

With respect to the Uruguay Round, the United Kingdom agrees that agriculture is the key stumbling block but has very little influence over the most recalcitrant nation—France. Having a fairly competitive agricultural sector, similar to that of the United States, the United Kingdom has been pushing hard for agriculture reform and improved GATT disciplines. Major is personally committed to the Round and wants to see a successful conclusion by the end of this year. He views the Round as particularly important given the events in Eastern Europe. Britain sees increased protectionism within the EC if the Round fails. Failure, or a minimalist result, will also increase protectionist pressures in the U.S. Congress.

The United States and the United Kingdom agree that the highest level of political commitment is necessary to achieve a successful conclusion to the Uruguay Round. Although there are many political difficulties to overcome, it would be ludicrous to have the Round fail because of agriculture which makes up only about 5 percent of the EC's collective economies. Even without the multilateral negotiations, there is significant pressure to reform the EC's common agriculture policy (CAP). Also, agriculture reform is essential to the economic health of developing countries and to the level of their participation in the Round.

Ambassador Seitz and his staff then reviewed bilateral issues, which included:

1. *Airbus*—The EC seemed caught by surprise that the United States invoked formal GATT dispute-settlement procedures. After several years of informal negotiations, the EC had still not offered any proposal for resolving the conflict; the United States therefore proceeded in the GATT and will seek formation of a Panel if formal consultations are not successful. France and Germany are central to resolving the dispute.

2. *Shipbuilding*—Although the United States has worked diligently with OECD on the problem of shipbuilding subsidies, little progress has been made. The United States is firm in its determi-

nation to end such subsidies because, with U.S. labor rates comparable to world rates, the U.S. shipbuilding industry could be revitalized and compete globally.

3. *Automobiles*—The United States wants to insure that any continuation of quotas on Japanese cars sold within the EC after 1992 does not include Japanese cars manufactured in the United States. The United Kingdom has worked for liberalization of EC auto quotas and, unlike most EC member states, has allowed significant Japanese investment. It remains unclear what level of EC-wide domestic content (50 or 60 percent) for autos will be required in 1992.

4. *Northern Ireland*—The United States contributes to the Northern Ireland Fund to help reduce unemployment in that region. The degree of cooperation between Dublin and London has increased substantially since the 1986 Anglo-Irish Agreement and negotiations, including talks among municipalities, continue. The United States supports these efforts.

Meeting with Confederation of British Industry (CBI)

Sir Brian Corby, President of CBI and Chairman of Prudential Corp., hosted a dialogue with the delegation and about ten senior British business leaders representing major corporations such as Prudential, Rolls Royce, BET, Grand Metropolitan, ICI and Reckitt and Colman. The focus of the discussion was value added tax (VAT) and trade and economic issues.

Although interested in the U.S. tax system, CBI's primary concerns are the regulation of foreign investment and the successful completion of the Uruguay Round. Mr. Gibbons stressed that EC businesses needed to take the lead in pressuring their government leaders for a good result from the negotiations, particularly United Kingdom businesses since they have long favored trade liberalization. He also noted that efforts to restrict foreign investment in the United States was aimed primarily at the Japanese because of the rather hysterical view that the Japanese were "taking over" America. Mr. Gibbons also expressed the view that U.S. taxes are overly complex and burdensome and should be replaced with a VAT, not as an additional tax but to replace corporate taxes.

Sir Brian replied by saying that everyone wants the Uruguay Round to succeed, particularly United Kingdom businesses who are looking for a conclusion to the talks by the end of this year. However, he conceded that the degree of enthusiasm varies. Much of the focus of businesses' interest is on EC 1992. He cautioned the United States not to undermine British foreign investment in an effort to punish the Japanese. Turning to taxes, he stated that the United Kingdom system of consumption taxes was also very complicated because of large scale exemptions (zero rating) for food and social oriented products such as children's shoes.

The VAT was implemented in Britain in the early 1970's, in anticipation of joining the EC. In addition to uniformity, the VAT is attractive because it raises large amounts of revenue with relatively little administrative cost to the government. The administrative cost is borne by businesses and the burden of the tax falls on consumers. Under the leadership of Prime Minister Thatcher, the income tax was lowered substantially and the VAT was raised; this movement from direct to indirect taxes represented a trade-off between personal tax and business tax, not direct and indirect taxes.

Sir Brian summarized the two key problem areas for United Kingdom businesses. One was the significant administrative burden of the VAT on businesses and the second was concern about how the tax system would be made uniform throughout the EC under the 1992 integrated market. If United Kingdom business could "waive a magic wand" they would eliminate, to the greatest extent possible, the protected areas in the VAT system by having a single rate and no exemptions. Mr. Gibbons noted that the U.S. tax system which has a myriad of exemptions and rebates, many also having a social purpose, has created problems not unlike those the United Kingdom is experiencing with the VAT. He also favored a single rate tax system with few, if any, exemptions. Referring to the EC's efforts to achieve tax uniformity, Mr. Gibbons explained that our 50 states have dissimilar taxes and do quite well without harmonization.

Mr. Pease noted that the international trade value in the VAT system held an attraction for many because the tax is rebated at the border for exports and assessed at the border for imports. The cost of government does not travel with goods, thereby making them more competitive. However, he felt that other factors, such as differences in tax systems among states and countries or particular taxes like the luxury tax, made more of a difference to the competitiveness of businesses than whether taxes were rebated or assessed at the border. As a consumer tax, the VAT is also much more regressive than U.S. taxes. Mr. Pease viewed it as a mistake to focus on one favorable aspect of the VAT without taking into account other, perhaps less desirable effects.

Mr. Anthony inquired as to what the difference was in the administrative costs between corporate profits tax and the VAT. All agreed that administrative costs for businesses associated with the collection of the VAT was considerably higher. It was also higher for small businesses than for larger corporations. In addition, because of different auditing systems, compliance costs associated with the VAT were less than with corporate profits taxes. However, since the VAT affects every transaction, even minor changes in the system prove very costly.

Messrs. Schulze and Jenkins turned the discussion to bilateral trade issues and to the Uruguay Round. Mr. Schulze pointed to the NAFTA negotiations as an indication of the commitment the United States has to pursue trade liberalization and disciplines on a bilateral basis if the multilateral system fails. Bilaterals are not the primary goal, but indicate the frustration of the U.S. government and the Congress over lack of progress and delays in the Uruguay Round and other multilateral negotiations. Pressure for additional bilaterals and protectionist measures clearly will increase in the Congress if the Uruguay Round does not produce meaningful results.

Mr. Jenkins inquired about how the EC was addressing quotas on imports from Korea and Japan of autos, steel and textiles. The CBI representatives responded that in the 1992 process all of these informal quotas would be formalized on an EC-wide basis; hopefully they also would be reduced and eventually phased out. With respect to autos, it was expected that quotas would be phased out by 1998 but there was pressure to require 80 percent domestic content for transplant manufacturing. When questioned about privatisation, CBI members felt the United Kingdom had gone about as far as it would go to privatise state-owned enterprises. Further privatisation of service oriented concerns, such as the railway system and postal services, would only be accomplished with great difficulty; they viewed these enterprises as "natural monopolies".

When questioned about the recession in the United Kingdom, the CBI members said they were not bullish, but less bearish about the economy. It was expected that the recovery would come beginning early next year, albeit from a reduced 1991 base, but improvements would not be uniform and there would be a lag in increased employment. Like in the United States, interest rates in the United Kingdom are down and the recovery is spotty, but there. Finally, the Airbus issue was raised and both sides agreed that little progress had been made. United Kingdom industries felt there had never been a proper debate between the parties, and there remained a great deal of suspicion over possible hidden agendas. The EC felt the US would not admit that indirect basic research by the Department of Defense and NASA provided a subsidy to the U.S. aerospace industry. Airbus subsidies, although different, were also justifiable.

Chairman Gibbons concluded the meeting by reflecting on what the delegation had discovered in Eastern Europe, the Soviet Union and Estonia. He predicted that there would not be massive Western aid to the Soviet Union, but assistance would come in the form of increased credits and credit guarantees. With respect to agriculture products, U.S. farmers are more likely to push for assistance to those countries with a more serious food shortage than the U.S.S.R. Mr. Gibbons felt there were many entrepreneurial opportunities in the U.S.S.R., particularly for chemical, oil exploration and development and transportation, but questioned whether the Soviets were in a position to create an acceptable climate for foreign investment. Many laws have been passed, but their application is still very much in question.

Meeting with Peter Lilley, Secretary of State for Trade and Industry

Bilateral issues and the Uruguay Round were the primary topics for discussion with Mr. Lilley and members of his department's staff. Mr. Gibbons began by raising shipbuilding subsidies and pointed to the bill (H.R. 2056) he has introduced to end such subsidies; his legislation is in response to the stalled and ineffective OECD negotiations.

Mr. Lilley agreed that the 7th EC Directive set the level of subsidies each year and the United Kingdom was interested in seeing these subsidies removed by the end of the year, "depending on market conditions." However, he did not believe the negotiations were stalled and pointed to the technical negotiations that continued on a regular basis. Mr. Gibbons said he was especially interested in pursuing his bill, in the absence of an agreement, because shipping fleets worldwide were aging which means there will be increasing orders for new ships; it is important to achieve a level playing field for American shipbuilders. Mr. Lilley concluded by saying that such subsidies are increasingly irrelevant because decreased military budgets were forcing shipbuilders to shift from building for military purposes to commercial purposes and no subsidies were available in such cases. He then pointed to the Jones Act in U.S. law and Mr. Gibbons agreed that it also was a subsidy that should be removed.

With respect to agriculture reform, Mr. Lilley said that the United Kingdom strongly opposed EC Common Agriculture Policy (CAP) subsidies and is totally supportive of U.S. efforts in the Uruguay Round. He wants the negotiations to conclude successfully by the end of this year and pointed to the commitment by heads of state to this result. He saw the U.S. objectives as ending export subsidies and improving market access; he felt that, if the negotiators could agree on a structure that would insure that a 30 percent cut in subsidies (proposed by the EC) would filter through to these U.S. interests, then a successful deal in agriculture could be concluded. Mr. Gibbons reminded him that these were not just U.S. interests, but also the interests of Australia, Canada, New Zealand and the third world.

Mr. Lilley complained about the U.S. position thus far on tariffs. Although the United States was pushing for zero-for-zero cuts in selected products, the United Kingdom was more interested in cuts of peak tariffs where the United States had not been very forthcoming. He was particularly critical of tariffs on woolen fabric and on ceramics where U.S. duties were higher than the United Kingdom applied on any product. Ignoring these tariffs of critical interest to the United Kingdom was unfortunate given the degree of support for U.S. interests that the United Kingdom has given within the EC. On the services front, the United Kingdom was seeking broad MFN coverage with only a minimum of derogations (such as for airlines) rather than the U.S. position of large-scale exclusions.

When Mr. Gibbons once again raised the issue of Airbus subsidies, Mr. Lilley responded that multilateral negotiations were a preferred approach to this issue rather than the GATT dispute-settlement procedures. Recognizing that the United States has a shorter fuse on this issue than the EC, he felt that both the EC and the United States needed to look at what would bring results rather than playing to the hawkish domestic gallery. Many in the EC feel that the United States is trying to kill their aerospace industry in order to restore the old monopoly of U.S. industries in this field. He felt that all involved should search for a balanced solution without resorting to unilateral measures.

Mr. Pease responded that the United States had been exceedingly patient but have begun to view the delays as procrastination rather than deliberate and careful negotiations; the United States does not view exercising its rights under the GATT as a unilateral approach. Mr. Lilley concluded by stating his belief that any agreement would not result in zero subsidies; he noted the massive support in the United States for military R&D that had significant commercial effects. The EC aerospace industry would not be held hostage to a U.S. monopoly. Mr. Pease saw it as an advantage to have the GATT arbitrate this issue, but recognized that the EC and the United States even there disputed whether the proper forum was the Aircraft Code or the Subsidies Code.

Turning to privatisation, Mr. Gibbons praised the United Kingdom's efforts to date but questioned whether the telecommunications industry also would be privatised. Mr. Lilley responded that the industry has been privatised since 1985 but that the 1935 Act on Telecommunications prohibits foreign investment beyond a certain percentage. However, there are virtually no restraints on purchases of equipment or value added services. Mr. Lilley then raised the Mack Amendment which would penalize foreign subsidiaries who traded with Cuba; the extraterritorial nature of this provision is extremely objectionable to the United Kingdom and most other nations.

Returning to the Uruguay Round, Mr. Pease explained that the view that the Round would fail was becoming more and more widespread in the United States among trade associations, businesses, academics and politicians. This was particularly unfortunate because an argument that something is a violation of GATT still carries some weight, more so even than USTR's views, and a failed Round would seriously undermine confidence in the GATT. Mr. Lilley agreed and expressed "guarded optimism" that the Round would end with a meaningful agreement. However, he felt that there needs to be a greater sense of the importance of the Round by countries other than the United States and the United Kingdom. In France and Germany particularly, the GATT is rarely mentioned in the press except as a problem for farmers. Business needs to become more active in expressing its interest in a successful Round. It would be terrible for agriculture, representing less than 5 percent of Europe's GDP, to defeat the Round.

The discussion concluded with a brief review of the status of EC 1992. All agreed that a "fortress Europe" would be the worst possible outcome. Mr. Lilley said the United Kingdom claimed parentage for the idea of an integrated market since the approach was so closely aligned to the United Kingdom domestic agenda over the last ten years. By and large, he felt that EC 1992 had been a liberalizing exercise and that concerns over certain EC directives were primarily psychological rather than based on actual effects upon implementation.

Meeting with Michael Wardle, Comptroller of the VAT, Central Unit, Collection and Control and Peter Trevett, VAT Administration Division

Members received a detailed briefing of the Value Added Tax (VAT) system as it is applied in Britain. Mr. Gibbons particularly was interested in moving to a VAT-type system in the United States, in order to promote the international competitiveness of domestic industries, so long as it becomes a total replacement tax—replacing social security tax, income tax, corporate tax, etc.

As the British administrators emphasized, the VAT raises enormous revenues very efficiently; however, it has not replaced the income tax in the United Kingdom. Also, there are continuous complaints from businesses, especially small businesses, about the costs associated with recordkeeping and payment of the tax. They also noted that the tax is rebatable at the border upon export, thereby providing a competitive advantage over non-VAT systems.

Unlike the Canadian system, which is a value added tax collected periodically on purchases, minus sales, the British VAT is a tax on every transaction. It is an input/output system that in effect taxes the supply of both goods and services at the invoice level. Businesses must keep separate VAT accounts and records of VAT adjustments (deductions from VAT paid). The administrative burden is much greater for small businesses, which must calculate and pay the tax every month, than it is for large industries that receive a cashflow advantage because they pay the tax every three months but every 2½ months have rebated to them those deductions not offset by the VAT tax paid. Government administrators, however, believe that recordkeeping requirements have benefited small businesses particularly because of the discipline that it requires.

For the sake of fairness and simplicity, officials believe that the VAT should be a single rate tax on all goods and services with no exemptions and no zero rates. However, political realities have caused a variety of such exemptions and zero rates, usually for social purposes. These exemptions cover food, newspapers, books, housing, water, public transportation, baby shoes, etc. Defining the public good associated with these sectors can be fuzzy. For example, should candy, snack foods, and mineral water be exempt from tax because they are in the food category. Also, the 5th EC Directive exempts the financial sector, including insurance, from the VAT tax.

EC member states do have a great deal of flexibility in applying the tax. The United Kingdom, for example, has the most exempt and zero-rated items of any other EC country. The European Commission has attempted to force more uniformity among member states and have objected to indiscriminate relief in the form of exemptions and zero rates. Most OECD countries use a VAT system because it is a good revenue raiser, is a good way to tax services and can be rebated for exports, making exports of goods and services more competitive. The VAT is also charged on imports; for services, the customer is usually charged the VAT as if it was purchased domestically. Advertising is taxed.

In the United Kingdom, all businesses selling nonexempt goods must register as VAT taxpayers (except very small businesses earning £35,000). There, of course, is an incentive to register so that rebates of the VAT can be collected. Audits are done frequently on high risk businesses—those with high volume, or which are targeted because of return information, complication of returns or other profile information. Large traders can be visited as much as thirty times per year and the very small businesses as little as once every ten years. Fraud is not usually pursued aggressively unless large amounts of money are involved or the taxpayer is a repeat offender or someone of repute.

The Members discussed a variety of technical issues, including taxation of gifts, property, rents, and legal services, the treatment of products sold at a loss, penalties for various violations, special rules for sales of businesses, taxation of charities and foundations, and technical assistance for small businesses. The regressivity of the VAT was also discussed as well as the VAT's relationship to other taxes. Currently in the United Kingdom the VAT comprises just under one-half of total taxes collected, with income tax making up the rest. It was estimated that for the VAT to fully replace all taxes, it would have to be set at 35 percent.

APPENDIX A:

Subcommittee Press Release, August 23, 1991, Announcing Trade Mission

FOR IMMEDIATE RELEASE
FRIDAY, AUGUST 23, 1991

SUBCOMMITTEE ON TRADE #17
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1102 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
TELEPHONE: (202) 225-3625

THE HONORABLE SAM M. GIBBONS (D., FLA.), CHAIRMAN, SUBCOMMITTEE ON TRADE, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES A TRADE MISSION TO EUROPE AND THE SOVIET UNION

The Honorable Sam M. Gibbons (D., Fla.), Chairman of the Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, today announced that he will lead a Congressional delegation of Subcommittee members on a trade mission to Europe and the Soviet Union between August 24 and September 10, 1991. This is the first authorized Congressional visit to the Soviet Union since the attempted coup.

The delegation will be visiting the Soviet Union at the invitation of the Supreme Soviet to discuss bilateral trade relations. This mission is the first step in the Committee's review of the U.S.-Soviet Trade Agreement and most-favored-nation (MFN) trade status. This mission will be followed by a public hearing in September, as announced in Subcommittee press release #16, dated August 9, 1991.

In announcing the mission, Chairman Gibbons stated:

> "Political events in the Soviet Union this week show just how important it is to support the movement towards democratic and economic reforms. Because it is clear that trade and economic relations will move to the forefront of our bilateral dialogue, I believe it is imperative that we assess firsthand the economic restructuring underway today in the Soviet Union.
>
> Normalization of our trade relations will bring with it the obligation to accept international trade norms. I look forward to discussing these issues with the Soviet government and business community."

For security reasons, the itinerary and schedule of meetings will not be released. Mrs. Gibbons will accompany the Chairman on the trade mission at no additional cost to the U.S. Government.

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APPENDIX B:
Outline of United States-Soviet Trade Agreement (USTR)

OUTLINE OF U.S.-SOVIET TRADE AGREEMENT

Preamble: Among other, notes favorable implications for trade expansion of development of market-based economy in the USSR and support for internationally recognized worker rights.

Article I: Most Favored Nation and Nondiscriminatory Treatment

Provides for most favored nation treatment on customs duties and other matters in connection with importation of products and their use in the domestic market; provides for non-discriminatory treatment with respect to application of quantitative restrictions, the granting of licenses and allocation of hard currency needed to pay for imports.

Article II: General Obligations with Respect to Market Access for Products and Services

Provides for improved market access and increased commercial opportunity, including through satisfactory reciprocation of market opening measures resulting from multilateral negotiations; provides for progressive increase of national treatment for U.S. products and services in the Soviet Union. Prohibits Parties from requiring or encouraging countertrade and barter. Provides for MFN on technical standards and prohibits adoption of standards which are discriminatory or designed to protect domestic production.

Article III: Expansion and Promotion of Trade

Provides for trade facilitation, expansion of commercial contacts, encouragement of trade promotional events, including duty-free import and re-export of articles used in such events.

Article IV: Government Commercial Offices

Allows government commercial offices to hire directly local nationals and third country nationals; assures unhindered access to such offices; encourages participation in promotional events of such offices.

Article V: Business Facilitation

Provides for an expedited Soviet accreditation procedure of commercial representations (CRs), so that approvals will in most cases be issued within 60 days of application; the accreditation procedure will be administered with a goal of maximizing participation by new entrants and small businesses; allows CRs to import and use office and other equipment; affords CRs nondiscriminatory access to office space and living accommodations, telecommunications, municipal and social services; allows CRs to hire directly local or third country employees on terms and in currency mutually agreed; permits access to all advertising media; permits conduct of market studies and commits Parties to provide needed information; permits CRs to stock and use samples and replacement parts on a non-commercial basis; permits companies to engage and serve as agents or consultants and engage distributors on prices and terms mutually agreed; and prohibits Parties from unreasonably impairing contractual and property rights.

Article VI: Transparency

Provides for timely publication of laws and regulations affecting commercial activity and for access to data on the economy; allows the other Party to comment on formulation of regulations which affect business activity.

Article VII: Financial Provisions Relating to Trade in Products and Services

Provides that transactions will be made in freely convertible currencies unless otherwise agreed; permits export of freely convertible currencies; most-favored-nation treatment on: opening and maintaining accounts in foreign and local currencies and access to such accounts, remittances of freely convertible currency, rates of exchange, and access to freely convertible currencies.

Article VIII: Protection of Intellectual Property

Reaffirms commitments to the Paris Convention and the Universal Copyright Convention (both are required by Jackson-Vanik). Provides for adequate and effective protection, in accordance with internal legislation, for all forms of intellectual property including trade marks, service marks and trade names. Provides for adequate and effective intellectual property protection and enforcement through the following obligations: adherence to the Berne Convention for the Protection of Literary and Artistic Works; provision of copyright protection for computer programs and data bases as literary works; protection for sound recordings including rental rights; provision for product and process patent protection for all areas of technology (except materials useful solely in atomic weapons) for a term of at least twenty years from filing of the patent; provision of comprehensive protection for trade secrets. Provides for possible copyright protection for pre-existing works, once the Soviet Union joins Berne (very important to the motion picture industry). Constitutes a Working Group on intellectual property. Commits to introduction of legislative proposals to implement commitments in Article VIII as well as principles agreed to in the side letters.

Article IX: Transit

Provides for facilitation of transit of products across territory of other Party.

Article X: Subjects for Further Economic Cooperation

Broad agreement to foster economic cooperation in fields of mutual interest; agreement to consult on expansion of trade in services sectors.

Article XI: Market Disruption Safeguards

Language reflects Section 406 of Trade Act of 1974; provides for consultation when import increases threaten or contribute to market disruption as well as for the right to unilaterally impose remedial measures in which case the other Party may suspend equivalent benefits.

Article XII: Dispute Settlement

National treatment in access to courts and administrative bodies; endorsement of arbitration for settlement of commercial disputes.

Article XIII: National Security

Permits any action for protection of security interests.

Article XIV: Consultations

Provides for periodic review of the operation of the Agreement under the Joint US-USSR Commercial Commission; consultation through appropriate channels on any issue arising under the Agreement.

Article XV: Definitions

Defines "company", "commercial representation", "national" and "organization".

Article XVI: General Exceptions

Permits adoption and enforcement of measures not inconsistent with the Agreement (e.g. health, antitrust), measures for protection of intellectual property rights and prevention of deceptive practices, and measures permitted under the GATT.

Article XVII: Entry into Force, Term and Termination

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The initial term is three years and the agreement is automatically extended for successive terms of three years unless 30 day termination notice is given prior to expiration; may be terminated at any time upon written notice.

SIDE LETTERS

There are nine side letters. These letters are as binding as the Agreement itself.

Letter on Intellectual Property Protection:

Commits the Government of the U.S.S.R. to introduce in 1991 the draft laws necessary to fulfill their commitments, to undertake all possible measures to enact these laws during 1991, and to seek prompt implementation of these laws. Provides for specific principles to be incorporated in legislative proposals on computer software protection and protection of trade secrets. Commits to possible revision of the term of sound recording protection (present Soviet copyright proposal calls for protection for 25 rather than 50 years). Calls for a possible revision of the forced buy-out provisions incorporated in the patent proposal presently before the Supreme Soviet. Pledges to a future negotiation on compulsory licensing for patents. Creates a working group to provide pipeline protection for pharmaceuticals and protection for lay-out designs for integrated circuits.

Business Facilitation Side Letter:

Encourages publication of directories of and information (including financial reports) on companies and organizations involved in foreign trade; provides for promotion of small and medium-sized companies.

Tourism Side Letter:

In addition to receiving the benefits of the agreement, provides for facilitation and expansion of tourist trade and for agreement on non-commercial government tourism offices which may provide information, conduct workshops, disseminate advertisements, and perform market research; provision of tourism services by commercial tourism enterprises will be on a fair and equitable basis.

Financial Provisions Side Letter:

The Soviet Union commits to give favorable consideration to U.S. company requests for opening and maintaining ruble bank accounts and use of local currency for local expenses. Once permission is granted, U.S. nationals and companies may continue to use such local currency even if future Soviet laws restrict the granting of new permissions.

Textiles Side Letter:

Confirms that trade in textiles will be governed by separate arrangements and preserves authority under U.S. law to restrain imports.

Gold Coins Side Letter:

U.S. commits in 1990 to seek legislation removing the ban on imports of Soviet gold coins under the Antiapartheid Act and to exert its best efforts to ensure repeal by the end of 1991.

Customs Cooperation Council and Harmonized Tariff System:

Reflects Soviet Union's intention to join the Customs Cooperation Council and implement, beginning in 1991, the Harmonized System.

Letter on U.S. Commercial Office and Soviet Trade Representation:

Confirms the legal status of already established government commercial offices in both countries; provides for establishment of future offices upon agreement.

Land-Lease Side Letters:

The lend lease side letter, which will be signed at the same time as the Trade Agreement, reaffirms the USSR's 1972 commitment to resume lend-lease payments once it receives MFN and is notified that restrictions on export credits and guarantees have been removed.

APPENDIX C:
U.S.S.R. Emigration Data

EMIGRATION FROM THE USSR 1971-1980

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
TOTAL	13908	35071	39354	27555	19428	25666	27245	38263	61848	34233
JEWISH	13022	31681	34733	20628	13221	14261	16736	28864	51320	21471
ARMENIAN		75	185	291	455	1779	1390	1123	3581	6109
GERMAN	886	3315	4436	6345	5752	9626	9119	8276	6947	6653

EMIGRATION FROM THE USSR 1981-1990

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
TOTAL	16852	4984	2955	1897	1655	1944	26418	81210	198115	37188
JEWISH	9447	2688	1315	896	1140	914	8155	19292	72528	19552
ARMENIAN	1905	338	193	88	109	247	3248	10981	6722	706
GERMAN	3595	1958	1447	913	406	783	14488	47572	98134	14795
EVANGEL-ICAL								2000	13940	523
PONTIAN							527	1365	6791	1430
OTHER										181

EMIGRATION FROM THE USSR 1991

	1991
TOTAL	224149
JEWISH	109675
ARMENIAN	1319
GERMAN	101986
EVANGEL-ICAL	2408
PONTIAN	8360
OTHER	521(emb - for august - 1)

1991 figures are complete through May for Pontians, complete through August for Germans, and complete through June for the other categories, and include Jews going to Israel in July. Not available are the number of persons entering the U.S. under parole.

From January 1990 to July 1991, there were approximately 34,000 parolees that entered the U.S. and are not accounted for in the above statistics. The majority of these parolees are Armenians.

Sources: Governments of the United States, Israel, Germany and Greece.

Prepared by Department of State, Office of Soviet Union Affairs.

September 11, 1991

APPENDIX D:
United States-U.S.S.R. Trade Data

U.S. Trade with the Soviet Union, 1983–1990

	1983	1984	1985	1986	1987	1988	1989	1990	Cumulative 1983–1990
Exports to the Soviet Union	2,002,872	3,283,931	2,422,826	1,247,512	1,479,765	2,767,605	4,271,222	3,087,593	20,563,326
of which									
Agricultural	1,457,140	2,816,809	1,868,912	655,313	929,855	2,168,487	3,436,327	2,241,403	15,574,246
Non-agricultural	545,732	467,122	553,915	592,199	549,909	599,117	834,895	846,910	4,989,799
Machinery & Transport Equipment	147,660	109,174	111,059	155,460	87,117	117,130	247,841	339,673	1,315,114
Imports from the Soviet Union	347,065	554,241	408,558	558,241	424,704	578,014	702,696	1,065,362	4,638,881
Merchandise Trade Balance	1,655,807	2,729,690	2,014,268	689,271	1,055,061	2,189,591	3,568,526	2,022,231	15,924,445

Note: Data before 1989 are estimated. Figures are in thousands of U.S. dollars.

Source: Compiled from official statistics of the U.S. Department of Commerce.

APPENDIX E:
White House Statement Waiving Jackson-Vanik Requirements for U.S.S.R., June 3, 1991

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 3, 1991

STATEMENT BY THE PRESS SECRETARY

The President submitted to the Congress his recommendation to extend the waiver authority granted under the Jackson-Vanik amendment (Section 402) to the 1974 Trade Act. In doing so, the President has determined that extension of the authority and of the waiver for the USSR granted in December 1990 will promote the objectives of the agreement -- free emigration.

The President made this decision in view of the fact that the Soviet government has substantially reduced barriers to emigration for Soviet citizens. Numbers of Soviets emigrating rose from 2,000 in 1986 to over 370,000 in 1990. The Administration believes that this positive trend will continue.

The President's action will permit the Soviet Union to remain eligible for export credit guarantee programs of the Commodity Credit Corporation of the Department of Agriculture and of the Export-Import Bank. The waiver is for one year.

# # #

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release June 3, 1991

TO THE CONGRESS OF THE UNITED STATES:

I hereby transmit the documents referred to in subsection 402(d)(1) of the Trade Act of 1974, as amended (19 U.S.C. 2432(d)(1)) ("the Act"), with respect to a further extension of the authority to waive subsections (a) and (b) of section 402 of the Act. These documents continue in effect this waiver authority for a further 12-month period.

I include as part of these documents my determination that further extension of the waiver authority will substantially promote the objectives of section 402. I also include my determination that continuation of the waivers applicable to the Republic of Bulgaria, the Czech and Slovak Federal Republic, the Soviet Union, and the Mongolian People's Republic will substantially promote the objectives of section 402. The attached documents also include my reasons for recommending the extension of the waiver authority, and for my determination that continuation of the waivers currently in effect for the Republic of Bulgaria, the Czech and Slovak Federal Republic, the Soviet Union, and the Mongolian People's Republic will substantially promote the objectives of section 402. My determination with respect to the waiver applicable to the People's Republic of China and the reasons therefor is transmitted separately.

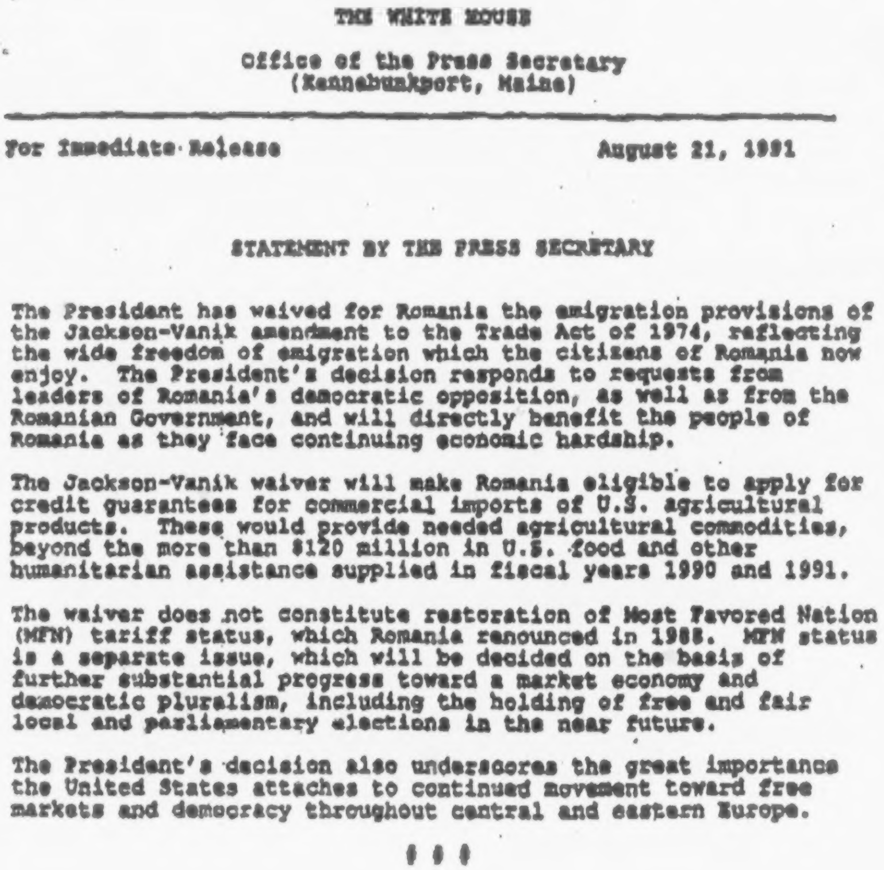
I note that the extension of the waiver applicable to the Soviet Union will apply to Estonia, Latvia, and Lithuania. This in no way affects the long-standing U.S. policy of not recognizing the forcible incorporation of Estonia, Latvia, and Lithuania into the Soviet Union or our support for the right of the Baltic States to reclaim their independence.

GEORGE BUSH

THE WHITE HOUSE,
June 3, 1991.

# # #

APPENDIX F:
White House Statement Waiving the Jackson-Vanik Requirements for Romania, August 21, 1991



THE WHITE HOUSE

Office of the Press Secretary
(Kennebunkport, Maine)

For Immediate Release August 21, 1991

STATEMENT BY THE PRESS SECRETARY

The President has waived for Romania the emigration provisions of the Jackson-Vanik amendment to the Trade Act of 1974, reflecting the wide freedom of emigration which the citizens of Romania now enjoy. The President's decision responds to requests from leaders of Romania's democratic opposition, as well as from the Romanian Government, and will directly benefit the people of Romania as they face continuing economic hardship.

The Jackson-Vanik waiver will make Romania eligible to apply for credit guarantees for commercial imports of U.S. agricultural products. These would provide needed agricultural commodities, beyond the more than $120 million in U.S. food and other humanitarian assistance supplied in fiscal years 1990 and 1991.

The waiver does not constitute restoration of Most Favored Nation (MFN) tariff status, which Romania renounced in 1988. MFN status is a separate issue, which will be decided on the basis of further substantial progress toward a market economy and democratic pluralism, including the holding of free and fair local and parliamentary elections in the near future.

The President's decision also underscores the great importance the United States attaches to continued movement toward free markets and democracy throughout central and eastern Europe.

# # #

THE WHITE HOUSE

Office of the Press Secretary
(Kennebunkport, Maine)

For Immediate Release August 21, 1991

August 17, 1991

Presidential Determination
No. 91-48

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Determination under Subsection 402(c)(2)(A) of the Trade Act of 1974, as Amended — Romania

Pursuant to subsection 402(c)(2)(A) of the Trade Act of 1974, as amended (the "Act") (19 U.S.C. 2432(c)(2)(A)), I determine that a waiver by Executive order of the application of subsections (a) and (b) of section 402 of the Act with respect to Romania will substantially promote the objectives of section 402.

You are authorized and directed to publish this determination in the *Federal Register*.

GEORGE BUSH

# # #

THE WHITE HOUSE

Office of the Press Secretary
(Kennebunkport, Maine)

For Immediate Release August 21, 1991

EXECUTIVE ORDER

- - - - - - -

WAIVER UNDER THE TRADE ACT OF 1974 WITH RESPECT TO ROMANIA

By the authority vested in me as President by the Constitution and the laws of the United States of America, including section 402(c)(2) of the Trade Act of 1974, as amended ("Act") (19 U.S.C. 2432(c)(2)), which continues to apply to Romania pursuant to section 402(d), and having made the report to the Congress required by section 402(c)(2) of the Act, I hereby waive the application of sections 402(a) and 402(b) of the Act with respect to Romania.

GEORGE BUSH

THE WHITE HOUSE,
August 17, 1991.

# # #

THE WHITE HOUSE

Office of the Press Secretary
(Kennebunkport, Maine)

For Immediate Release August 21, 1991

TEXT OF A LETTER FROM
THE PRESIDENT TO THE SPEAKER OF
THE HOUSE OF REPRESENTATIVES AND
THE PRESIDENT OF THE SENATE

August 17, 1991

Dear Mr. Speaker: (Dear Mr. President:)

Pursuant to subsection 402(c)(2)(A) of the Trade Act of 1974, as amended (the "Act") (19 U.S.C. 2432(c)(2)(A)), I have determined that a waiver of the application of subsections (a) and (b) of section 402 of the Act with respect to Romania will substantially promote the objectives of section 402. A copy of that determination is enclosed. I have also received assurances with respect to the emigration practices of Romania required by subsection 402(c)(2)(B) of the Act. This letter constitutes the report to the Congress required by subsection 402(c)(2).

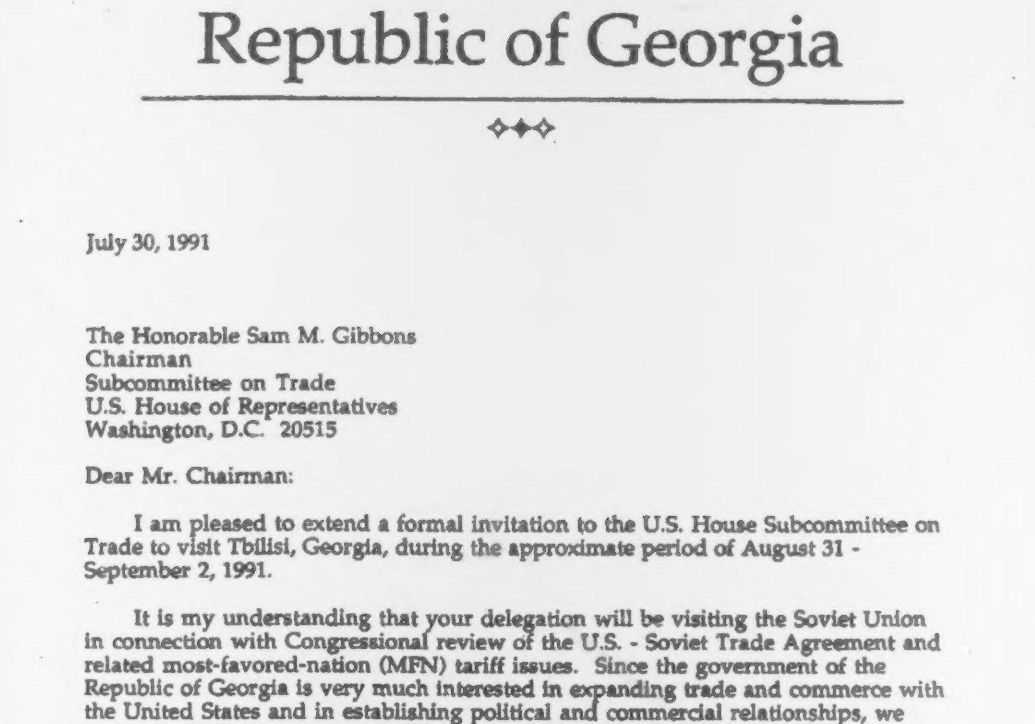
Pursuant to subsection 402(c)(2), I shall issue an Executive order waiving the application of subsections (a) and (b) of section 402 of the Act with respect to Romania.

Sincerely,

GEORGE BUSH

# # #

APPENDIX G:
Letter of Invitation From Republic of Georgia



Republic of Georgia

◆

July 30, 1991

The Honorable Sam M. Gibbons
Chairman
Subcommittee on Trade
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to extend a formal invitation to the U.S. House Subcommittee on Trade to visit Tbilisi, Georgia, during the approximate period of August 31 - September 2, 1991.

It is my understanding that your delegation will be visiting the Soviet Union in connection with Congressional review of the U.S. - Soviet Trade Agreement and related most-favored-nation (MFN) tariff issues. Since the government of the Republic of Georgia is very much interested in expanding trade and commerce with the United States and in establishing political and commercial relationships, we welcome the Subcommittee to Tbilisi to discuss these issues.

Accordingly, the Foreign Ministry of Georgia is pleased to sponsor your visit. The Ministry will assist in scheduling appointments, securing hotel reservations, and making transportation arrangements.

We look forward to receiving your delegation

Sincerely,

Gueorgui I. Khonelidze
First Deputy Minister
Ministry of Foreign Affairs

MINISTRY OF FOREIGN AFFAIRS:
4, Chitadze str.
Tbilisi, 380018
Republic of Georgia
Phone: (8832) 997049

U.S. INFORMATION OFFICE:
1825 K Street, NW, Suite 210
Washington, DC 20006
Phone: (202) 466-4292
Fax: (202) 466-8500

APPENDIX H:

Submission From Georgian Prime Minister Gugushvili, September 2, 1991

On the border of the North and South, East and West, in the middle of different cultures, religions and ideologies lies our small Christian country, a country that remembers occupations, lost battles, and the fight for freedom. It remembers the sweet moments of independence and freedom and the horror of occupation.

But always during almost three thousand years of our existence somewhere there was a small part of Georgia that was free. This, unfortunately changed after Georgia was "named" a part of the Empire of Evil.

The 200 years of colonial domination and especially the last 70 years of imperial domination brought pain and terror to the Georgian people. This was a dark era that resulted in the downfall of the economy, culture, sciences and especially morals.

The domination had a terrible effect on the demographic situation in Georgia. The imperialistic policy in questions concerning demography, constant wars, repressions, famine brought about the gradual reduction of the Georgian population.

If, when Georgia was occupied by Russia 90 percent of the population of our country were Georgians by the 1960's they were only 60 percent and from some regions Georgians were even almost completely banished.

The demographic colonization of Georgia intensified during the 1920's and 30's when famine in different parts of the Kremlin Empire forced tens of thousands of people to flee to Georgia, to our rich lands.

Despite the imperialistic demographic policy, the terrible economic situation, georgians, who have a traditional sense of ethnic, cultural and religious tolerance never became shiniest or nationalists in a bad sense of the word.

For 2600 years jews have lived peacefully in Georgia. Almost all these years armenians have lived in Georgia and during all this time nobody can remember of any "pogroms" or actions aimed at repressing these or other ethnic minorities in Georgia.

It is hard to find another country as small and as ancient as ours where people of so many different ethnic groups live peacefully together, publish ten newspapers in different languages have schools where children can study in seven different languages, have theaters with plays in nine languages, and where people of ten different religions live freely.

We want to build a new and free Georgia based on international law and on the historic traditions of our ancestors. Give the ethnic minorities wide cultural autonomy and a chance to live and work in a free country.

Now, unfortunately imperialistic forces are doing everything to hamper this process. They want to see disagreements between different ethnic groups, they provoke violence but there is no basis for this in Georgia.

Their final aim is to make it difficult for Georgia to gain total independence, to give a bad name to our movement for freedom and prevent the countries of the free world from diplomatically recognizing Georgia.

Ethnic conflicts are just one of the ways of fighting against our movement for freedom. The whole population of Georgia also sees the effects of the economic blockade.

But the Georgian people, for whom freedom is the most important thing, believe that peacefully and in a democratic way we will gain independence. We will not lose hope that the democratic movement in Russia and in other parts of the empire will be a sufficient basis for this.

We also hope that the peaceful, smooth and regulated dismantling of the structures of the empire will gain more and more support abroad. We are sure that nations in different parts of the world will come to the understanding that things like freedom and democracy are incompatible with the word empire. It is impossible to guarantee a personal freedom in a situation where there is occupation.

The development of the economy of independent Georgia will move in the direction of the gradual transition from the socialist (state monopolism) system to private property and market economy.

On this path we will have a lot of difficulties and it will take time but we will need strength, and the help of the free world.

- Georgia does not have economic borders and because of that we do not have the ability to carry out an independent economic policy;
- we still do not have a detailed plan of economic reforms and privatization which will be suitable for Georgia;
- we have a shortage of specialists with the necessary IQ who now what market economy is, specialists like economists, administrators, managers, lawyers, etc.
- the population is used to a very low discipline of work, and a persons work place from the day he is born is considered a form of social security;
- economic ties with different countries are nearly zero, once stable prices change rapidly and the economy of the country can't keep up with it;
- for a country with such a small territory and such a vast specialization in the field of agriculture it is difficult to work out and even more difficult carry out a unified policy in agriculture;
- there is a great struggle coming from the state bureaucracy, because it is losing its monopoly on power;
- the influence of the 'mafia' and corrupt circles is still strong.
- almost no part of the population has enough money to start an enterprise and we do not have the necessary knowledge of how to use this money.

Imperialistic circles are trying to portray us as people who will stop all economic, cultural and other relations with different parts of the Soviet Union after gaining independence. This means isolation, and is a total lie.

Georgia strives for mutually beneficial relations with all countries including, of course, former Soviet republics with whom we have very strong economic ties.

Apart from this, Georgia wants to have relations with countries that were "closed" for us during the years of being a part of the empire.

Georgia has an important geopolitical role, and the people and government of Georgia understand the responsibilities they have and we are sure that a free and independent Georgia will be a stronghold of democracy.

APPENDIX I:

Letter From Arnold Rüütel, Chairman of the Estonian Supreme Council on MFN for the Baltics

EESTI VABARIIGI
ÜLEMNÕUKOGU
ESIMEES

August 12, 1991

The Honorable Dan Rostenkowski
Chairman, House Ways and Means Committee
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Rostenkowski:

Recently, information has reached Tallinn about statements allegedly made by me during my last visit to the United States this July. If my remarks made during meetings with the United States Administration, Congressional leaders, or at the National Press Club (see Congressional Record of August 2, 1991), can be construed as my approval for granting MFN treatment to the three Baltic States as part of the Soviet Union, then this is definitely not my position and can only be due to inadvertent or intentional mistranslation. The position of the Republic of Estonia is to reject any participation in the Agreement on Trade Relations between the United States of America and the Union of Soviet Socialist Republics, signed in Washington on June 1, 1990. Granting MFN treatment to the present-day Soviet Union of 15 republics, even temporarily including the Baltic States, would enmesh us in the Soviet customs territory. Execution of the Lithuanian borderguards is a clear omen of things to come if officially unrecognized territorial annexations are tacitly approved in the form of customs territories or protectorates. Munich never brought peace to Europe or the World.

Our position is put forward in numerous decisions by the Council of the Baltic States and is clearly stated in the letter of June 17 by Minister Lippmaa and in my letter of July 12 to the Congressional leaders and to the Secretary of State. The same position is put forward in the letters of June 11 and of July 11 to the President by the Supreme Council Chairmen and the Prime Ministers of Estonia, Latvia and Lithuania.

The Proclamation of August 2 is insufficient and does not carry the necessary binding legal validity of an Act of Congress. It would certainly encourage hardliners and could deliver a severe blow to the peaceful transformation of the Soviet Union into a regular member of the democratic world community.

Please accept my assurances that our commitment to genuine independence, as opposed to some Soviet-mediated form of sovereignty, remains unchanged. This is one of the rare historical occasions, where your help can truly defend American values on another continent, and by supporting real democratic changes in the Soviet Union, will undoubtedly defend American national interests.

I hope that a proper binding amendment can be included into the ratification resolution, excluding the Baltic States from the U.S.-USSR Trade Agreement and reviving their own MFN status.

Sincerely,

Rüütel

Arnold Rüütel
Chairman of the Supreme Council

APPENDIX J:
Summary of Estonia's Economic Plan of Action

A Summary of the Estonian Government's
3 x 3 Program
September, 1991

Aims:

1. **3 weeks** guarantee conditions for the restoration of Estonian independence
   ensure that the process of the restoration of independence is irreversible, by utilizing the current "hot climate"

2. **3 months** put into practice Estonia's independence
   create conditions for statehood
   restructure institutions

3. **3 years** bring Estonia out of the economic and political crisis
   stabilize society on democratic and free market principles
   create conditions for our integration into Europe and for joining international organizations

The government emphasizes that it is necessary to increase the importance of the role of the economy.

In detail:

3 weeks create institutions necessary for statehood
determine citizenship body
develop competent state power
control territory
national economic program

3 months international treaties
conditions for separation from the USSR agreed
international guarantees for Baltic States independence
resolve issues of timing of withdrawal of Soviet forces; borders; the handing over of armaments; conditions of our investments in Soviet regions rich in natural resources; most favored nation status in trade
economic ties to the east shall be evaluated -- some converted into international ties, some will fade away because of being a burden to both parties, others will be compensated by new agreements with the West (e.g. becoming part of international tax system, European standards)

3 years Estonia's advantages on its development path: good economic basis (own source of energy); varied industry; potentials in agriculture; relatively good education system; geographical location; experience in international relations; ability to learn; well prepared for the transfer to a new economic system; growing interest from the Nordic countries

I Guaranteeing the conditions for restoration of independence

1. Temporary agreements with the USSR

. **border issues** - sign a protocol with the Border Guard Forces of the Baltic Region in order to establish joint control at border crossings and begin taking over control of the coastal border; sign a temporary agreement with the Soviet KGB for total control of the land border, and participation in the defense of the sea border; cooperation in training and supply; gradual withdrawal of the Soviet units from Estonia; hand over of land, buildings, equipment, armaments

. **internal defense** - sign an agreement with the Soviet Interior Ministry to transfer control of their troops to the Estonian Interior Ministry; cooperation in the fight against crime; sign a temporary protocol with the Soviet and Estonian KGB to halt their activities, and to guarantee the preservation of their property and archives in Estonia

. **Soviet troops** - issues of their temporary presence on Estonian territory; sign agreements to begin the withdrawal of Soviet armed forces, to determine their status, the halting of military espionage, the recognition of Estonia's own defense forces, assistance by the Soviet Defense Ministry in its creation, the return of the property belonging to the earlier Estonian defense force, the transfer of the war commissariat and civil defense systems to the Estonian government, the localization and transfer to Estonian control of the Soviet bases, the cessation of manouevers, return of land and the establishment of rental agreements, handover of armaments, the status of, and guarantees for, the Soviet armed forces and their families; agreement for the return of Estonian conscripts and officers serving in the Soviet armed forces

. **customs** - sign a protocol with Soviet customs for joint customs control

. **visas** - temporary agreement with the Soviet Foreign Ministry and the KGB on the issuing of Estonian visas at the Tallinn harbor and airport, and the mutual acceptance of Soviet and Estonian entry and exit visas

. **legal** issues - sign agreements with the Russian Federation, Latvia and Lithuania

. **railway, shipping, communications, civil aviation** - transfer to Estonian control, use of the Estonian national flag

. **international organizations** - possible assistance from the USSR

. **consular issues** - agreements with the Foreign Ministries of the USSR, Latvia and Lithuania

. **currency** - agreement on use of Soviet currency until the introduction of Estonian currency, and (if necessary) the overprinting of Soviet currency in use in Estonia; overprinting of Soviet **stamps** for use in Estonia

. **banking and insurance** - agreements with the Soviet central bank on savings of Estonian residents, with the Soviet central insurance company

. **economic cooperation and barter** - recognize all bilateral treaties signed in 1991 between Estonia and the USSR and other states, as well as Estonia's treaties with the Soviet republics

. **infrastructure** utilization - sign agreements on mutual use of post, telephone, railway, airspace, pipelines, transport equipment and buildings

. **international contacts** - use of international telephone and post

. **pensions** - mutual agreements, the financing by the USSR of All-Union personal, defense, KGB and Interior Ministry, war invalid and veteran pensions, and benefits

2. **The restoration of a unified national economy**

The property of All-Union organizations, institutions and enterprises has been declared to be the property of the Republic of Estonia.

. **industry, construction and transport** - the transfer of industry to Estonian control shall occur gradually; proposals must be presented by the government commission to the Supreme Council by October 1, 1991; sign agreements on repair systems, technical supply of All-Union transport enterprises; the property of "Eesti Kalatööstus" (Fisheries) shall be expropriated, agreements signed on fishing quotas and licences and the use of foreign ports by Estonian fishing vessels

. **banking** - transfer control of the Estonian section of the Soviet State Bank, and merge with the Bank of Estonia; a proposal shall be presented for transfer of control of the Hoiupank (Savings Bank)

. **customs** - until Estonian legislation is available, Soviet law shall remain valid

. **Soviet official bodies** - standards, meteorological, research organizations shall be transferred to Estonian control

. **state reserves**

. **economic zone** - ownership, use of natural resources; an inventory shall be completed within one month by the appropriate department, and proposals presented to the Supreme Council of government

. rental agreements for **land and buildings** used by All-Union institutions shall be evaluated by local government bodies

. control over **energy, railway, air transport, gas pipelines, communications** shall be assumed by the government until bilateral inter-state agreements are concluded

. **property of other states** - properties in Estonia which are subsidiaries to All-Union enterprises based in the Russian Federation, Latvia and Lithuania, and which have been declared the property of the respective states - shall be resolved by negotiation

. **economic legislation** - shall be reviewed within a month

3. **State Matters**

. **territorial control** - customs declarations, check on travellers, customs statistics; control on the western border; Estonian-Latvian land border formalization; disbandment of illegal groupings; create a regular reserve with volunteers, organizing training, placement at borders, police; create officer body, form Estonian Officers' Association; formulate Estonia's visa policies; declare a draft for alternative service, prepare to merge with armed forces and civil service after appropriate legislation; create a **Bureau of Investigation** for state security, to fight terrorism and crime directed against the state; carry out the nationalization of CPSU property; secure state secrets; disband the town councils in north-eastern Estonia which have continually refused to obey Estonian laws, and declare new elections; bring new highly qualified people into the civil service

. **citizenship** issue - status of Soviet passports on Estonian territory; implementation of Estonian Identification Cards; Estonian legislation on exit and entry procedures; draft legislation on the armed forces and civil service

. **constitutional** issues - formation of the Constitutional Assembly; develop laws based on the constitution; Estonian representations to be established according to international protocol; regular translations of Republic of Estonia legislation into at least English; complete removal of the term Estonian Soviet Socialist Republic from legislation, names of legal entities, documentation, etc.

4. **Relations to the east: economic cooperation with USSR and its republics**

A first priority is to change the Moscow Representation of the Government of the Republic of Estonia into the Republic of Estonia Embassy in the USSR, together with a staff who can represent us to the Soviet Union and Russia. An economic representation also needs to be established within the embassy. The authority of those USSR Peoples' Congress deputies who have been elected from Estonia needs to be voided. The sixth inter-governmental consultative council will be held in Tallinn September 19-20, where future horizontal economic relationships between those republics who stay in the USSR, and also the Baltic States and Central European states shall be determined. Bilateral barter will become dominant. Mediator companies should increase their purchases of goods for rubles. The Bank of Estonia must speedily resolve all issues with Soviet, Russian and other states' banks. The issue of transit freight needs to be resolved. Currently transit freight is free of duty. The status of railway cars, aircraft, ships, pipelines (gas, oil), roads, railways, electric cables, air space, flight paths, communications, telegraph, post, space communications must be determined. Participation of previous All-Union enterprises in the work of All-Union associations is acceptable if it does not change the ownership status and brings with it ruble capital from the east.

5. **Economic and political relationships with the West**

Our contacts with the outside world must be on all levels -- from international organizations to personal contact.

. **international organizations** - United Nations, International Olympic Committee, "Interpol", International Court in The

Hague, European Community (initially associate membership), International Monetary Fund, the World Bank, the European Bank of Reconstruction and Development, the Nordic Investment Bank, and the European Investment Bank. On September 23-24 the next meeting of the Council of the Baltic States will be held in Tallinn, where a Baltic Customs Association treaty shall be signed. Other Baltic economic integration plans will be developed there. We are applying for participation as a full member in the human rights conference being held in Moscow in September as part of the Helsinki process.

. **inter-state** - establish consular relations within the next weeks with the first foreign countries, and prepare for the signing of economic treaties with a number of Nordic and Central European countries. We are forming a government level organization in order to apply for, receive and coordinate foreign aid. An information bureau will be established within the Foreign Trade Relations Department to introduce Estonian economics to the outside world and offer investment possibilities for new enterprises and for purchase of stocks in state stock companies. The government will also apply for primary aid and credits which are necessary to rebuild the state, or to solve critical problems, such as purchase of fuel, medicines, etc. The foreign investment law should be passed soon by the Supreme Council, the government is planning to liberalize foreign investment -- removal of export and import tariffs. The aim is to make Estonia a state with minimal customs restrictions. The Bank of Estonia will be positively considering the entry of foreign banks into Estonia. Companies operating in Estonia which were formed as joint ventures between the Soviet Union and a foreign company will be re-registered as being joint ventures with Estonia. All restrictions on foreign participation will be lifted.

6. **Speeding up of economic reform and day-to-day organization**

. **new emphases** - we now have noone else to blame when our home is not as clean and tidy as it should be. All town, county, and regional councils should organize mass clean-ups -- with the participation of pensioners, students, alternate servicemen, those conscripts who have terminated their service in the Soviet army. Those unemployed who require social assistance but who are able-bodied should be utilized in community work. Preparations need to be made for the winter -- especially important is fuel for heating (wood, coal). It must become clear that the central supply system with its funds and limits is now decisively and finally over. The supply system must be developed anew, using wholesalers and exchanges.

. **speeding up of economic reform** - The government has recommended to the Supreme Council legislation which would allow enterprises to sell 20% of its stock to its own workers. Also legislation on monopolies and competition will be introduced. The Prices Department will be renamed the Prices and Competition Department, which would determine regulation on prices and competition. Municipalization must be speeded up -- in housing, health, education, cultural institutions, as well as in social security. The privatization of the commercial, service and food provision systems must be accelerated. This autumn a radical commercial reform must be implemented. The ETKVL (Food Growers Cooperative) will be reorganized. The housing of the previous All-Union enterprises will be municipalized. The rate of sale of apartments will be increased. Some housing, where the question of ownership is clear, will be sold. Most property will be sold for state debentures or for the Estonian kroon.

7. **Finance and banking**

In order to stabilize the cash flow:
1. Overprint Soviet rubles until the Estonian kroon is introduced
2. Introduce personal cheque books
3. Introduce company cheque books
4. Limit payment in cash
5. Extend cheque books to legal entities who deal with other Baltic States and Russia. Sign agreements with central banks in Lithuania, Latvia and Russia to use common cheque books in mutual transactions.

The restoration of the independence of the Republic of Estonia requires the assistance of everyone in Estonia. We must follow words with deeds. We hope that in the process of carrying out these deeds, a new generation of Estonian leaders will develop.

We invite able people from enterprises and organizations to join the civil service for six months -- a year, three years -- to jointly put into effect the 3 x 3 program to restore Estonian independence and become part of Europe.

We invite all with ideas on how we could develop our economy to join us. Don't keep these ideas to yourself. Only together can we be strong and achieve our aims.

We must achieve Estonia's independence in as short a time as possible, and with a result which is beneficial to the Estonian people.

APPENDIX K:
Text of President Bush's Statement Extending Diplomatic Recognition to Estonia, Latvia, and Lithuania

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<H>U.S. TO ESTABLISH DIPLOMATIC RELATIONS WITH BALTICS
<SH>(Transcript: Bush news conference statement) (600)

<T>Kennebunkport, Maine -- The United States "is now prepared immediately to establish diplomatic relations" with the governments of Estonia, Latvia and Lithuania, President Bush announced September 2.

In a news conference at his Maine vacation home, the president said he will be sending a special emissary, Deputy Assistant Secretary of State Curtis Kamman, to the Baltic states "to assist in the completion of the current process of making Baltic independence a factual reality."

The president said he will also be sending other expert missions to the USSR to help "the Soviet people in meeting their own food and energy needs, particularly, and beginning true economic reform."

Following is a White House transcript of the president's statement at his news conference.

(begin transcript)

Nearly two weeks ago, the world watched with fascination the courage of the Soviet people in foiling a cynical coup -- a coup that, thank God, failed. We've marveled since at their efforts to build a new and democratic future.

Major changes are now taking place in the Soviet Union, not the least of which is the establishment of new arrangements between the republics and the central government.

While we await the final outcome, I welcome President Gorbachev's support for the concept that the republics will be free to determine their own future. This new 10-plus-1 agreement speaks eloquently to that.

This is a watershed in Soviet political thinking, equal to the dramatic movements toward democracy and market economies that we are witnessing in the republics themselves. The United States strongly supports these efforts.

The Baltic peoples of Estonia, Latvia and Lithuania and their democratically elected governments have declared their independence and are moving now to control their own national territories and their own destinies. The United States has always supported the independence of the Baltic States and is now prepared immediately to establish diplomatic relations with their governments.

The United States is also prepared to do whatever it can to assist in the completion of the current process of making Baltic independence a factual reality. To facilitate this, I will be sending the Deputy Assistant Secretary of State, Mr. Amman, to the Baltic.

We also understand the enormous challenges that lie ahead for the Soviet people in meeting their own food and energy needs, particularly, and beginning true economic reform. Therefore, I'm sending Under Secretary of Agriculture Crowder with an experts' mission to survey with Soviet and republic officials their critical food requirements for the coming winter, particularly in those republics that are likely to be in the greatest need.

And in a month, a presidential mission led by Secretary of Agriculture Ed Madigan will bring a delegation of senior private-sector and government officials to the USSR to seek solutions to a winter food problem if we determine that one exists, and to continue our long-term efforts to help the Soviet Union and the Soviet people resolve problems of food distribution.

I've also asked Secretary of State Jim Baker and our AID administrator, Mr. Roskens, to work with Project HOPE to augment and extend my presidential initiative on medical assistance to the USSR through the end of 1992.

We intend to work closely with Soviet and republic officials in both of these efforts. This morning I talked to the Presidents of Estonia and Latvia, as I did to Mr. Landbergis of Lithuania a couple of days ago to tell him of this official position now being taken by the United States of America.

(end transcript)
NNNN

APPENDIX L:
U.S.S.R. Draft Economic Union Treaty, Submitted by Grigoriy Yavlinsky, September 5, 1991

ENCLOSURE 4

Draft Economic Union Treaty from Grigoriy Yavlinsky

September 5, 1991

John HAROT

USSR STATE COUNCIL

On the Draft Economic Union Treaty

At the initiative of the USSR Committee for Managing the Economy, a draft Economic Union Treaty has been prepared by a group of specialists.

The main task of the Economic Union is to consolidate the efforts of the sovereign states for the purpose of forming a common market and conducting a coordinated economic policy, as a necessary condition for overcoming the crisis. This draft stipulates that entering into the Economic Union is not dependent upon signing the treaty on the Union of Sovereign States.

The draft contains fundamental solutions to key problems associated with the regulation of economic relations among the member states of the Economic Union, as well as among states that did not desire to join. Naturally, the entire complex of issues defining the new economic relations among the states cannot be resolved by the Treaty. It is anticipated that a packet of supplemental agreements on specific spheres will be concluded based on the Treaty.

The draft Economic Union Treaty has been prepared as the basis for negotiations by authorized representatives of the states, in the course of which it is necessary to work out coordinated solutions to all the key economic issues.

If the proposed draft in the main receives the approval of the State Council, it will be possible immediately, from the position of this Treaty, to begin negotiations with foreign countries and international organizations about their support, which could facilitate economic stabilization and accelerate the transformation of the economic system in all the member states of the Economic Union.

In parallel with preparation of the Treaty for signature, it is necessary already now to form working groups of specialists, with representation by the republics, to develop the specific agreements supplementing the Treaty.

If the work is organized in this way, an objective opportunity exists for concluding preparation of the packet of documents on creation of the Economic Union within three or four months.

[signature] G. Yavlinskiy

5 September 1991

Draft

ECONOMIC UNION TREATY

Moscow

5 September 1991

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Draft

ECONOMIC UNION TREATY

The independent states that are also the former subjects of the Union of Soviet Socialist Republics, irrespective of their current status,

affirming their right to decide independently all questions of social and economic development,

expressing the will of their peoples for political and economic sovereignty, set down in documents approved by the highest legislative authorities of the states,

desiring to establish normal relations among the peoples and to protect the economic interests of citizens,

taking into account the crisis in the USSR, and the need for a fundamental reexamination of the entire set of relations among the states that were included therein,

believing that time is required to solve the political, defense, property and humanitarian issues in the relations among the states,

proceeding at the same time from the fact that, under the conditions of the economic crisis, urgent, coordinated actions by all the states, which are capable of stopping and then overcoming the crisis, are required,

striving for radical economic transformations, and taking into account the commonality of the problems facing the states in connection with the transition to a market economy and entry into the world economy, and recognizing the advantages of economic integration and the common economic space, and the advisability of preserving economic, commercial, scientific and technical, and other relations,

conclude this Economic Union Treaty.

Chapter 1. Basic Principles

Article 1. An Economic Union shall be created by independent states, on the basis of voluntary participation and equal rights of all of its members, for the purpose of forming a common market and conducting a coordinated economic policy, as a necessary condition for overcoming the crisis.

Article 2. Membership in the Economic Union shall entail acceptance by the independent state of all of the obligations, and acquisition of all of the rights, stipulated by this Treaty.

The member states in the Economic Union shall proceed from mutual economic responsibility for the fulfillment of this Treaty, and shall refrain from any steps that threaten the fulfillment of this Treaty as a whole, or of its separate provisions.

Article 3. Relations with the states that have withdrawn from the USSR and have not joined the Economic Union shall be structured on the general principles of international economic relations. Matters that require regulation in connection with this shall be resolved by special agreement between the Economic Union and the corresponding state, which shall be concluded within three months from the time that this Treaty is signed.

Article 4. An Economic Union member state shall have the right to withdraw.

It must notify the other members of the Economic Union of its intention no less than 15 months in advance. Withdrawal from the Economic Union shall be conditional upon the settlement of relations pertaining to all obligations associated with membership therein, in accordance with a special agreement.

Article 5. The Economic Union member states shall agree to conduct a coordinated policy in the following fields:

enterprise

movement of goods and services

money and banking system

finances and taxes

prices

labor market and social guarantees

customs regulations and tariffs

foreign economic relations and currency policy

state scientific and technical, investment, ecological, humanitarian and other programs

standardization, patent matters, metrology, statistics and accounting

legal regulation of economic activity

Article 6. The member states of the Economic Union shall create bodies endowed with appropriate powers, to carry out a coordinated economic policy and common measures to improve the economy and escape the crisis.

Article 7. This Treaty shall be concluded for a period of five years.

No later than 12 months before the end of this period, the member states of the Economic Union shall decide the question of extending or modifying this Treaty or concluding a new Treaty.

Chapter II. Enterprise

Article 8. The member states of the Economic Union recognize that private property and free enterprise are the foundation for improving the economy. They shall create conditions that contribute to business activity, and limit legislatively the interference of the state in the economic activity of enterprises.

Article 9. A member state of the Economic Union shall undertake to provide on its territory an identical legal system for carrying out economic activity, for physical and legal persons, both of its own state, and of all other member states of the Economic Union, including matters of taxation, observance of ecological requirements, and access to natural, labor, material, financial and information resources.

Article 10. Economic Union member states shall undertake to conduct a coordinated anti-monopoly policy, and to assist in the development of competition, within the framework of their united market.

Chapter III. Movement of Goods and Services

Article 11. The movement of goods and services on the territory of states included in the Economic Union shall be carried out freely, on an untaxed basis.

Article 12. Striving toward the formation of a united market, the Economic Union member states shall recognize the impermissibility of limitations on the movement of goods and services, and shall undertake to eliminate them within an agreed period.

For a specified period, certain previously established limitations on the movement of goods between states may be retained for coordinated lists of goods, and they must not pertain to manufactured products being delivered under existing cooperative relations.

Article 13. To ensure the normal functioning of the economy in the period of the formation of market relations, the Economic Union member states shall conclude inter-state bilateral and multilateral agreements, which guarantee deliveries of the most important types of goods and services, to which coordinated prices are applied. For the fulfillment of deliveries under these agreements, as well as deliveries for common needs and inter-state consumers, bodies of the member states of the Economic Union or, on their instructions, corresponding bodies of the Economic Union, may place state orders.

The Economic Union member states shall undertake to conduct a coordinated policy of reducing the volume of state orders, and consistently expanding the sphere of free market exchange.

Chapter IV. Money and Banking System

Article 14. The Economic Union member states recognize that coordinated actions in the field of money and credit policy are of priority importance for escaping the crisis and controlling inflation.

Article 15. The Economic Union member states see advantages in retaining the ruble as the common currency of a unified monetary system, and agree to undertake efforts in 1991-1992 to strengthen the ruble. The introduction of national currencies by Economic Union member states shall be permitted, but only under conditions that eliminate the possibility of damage to the monetary system of the Economic Union. These conditions shall be determined by a special agreement between this state and the Economic Union.

Article 16. To work out and conduct an effective money and credit policy, which provides for restraining price increases and supporting the ruble exchange rate, the Economic Union member states shall establish a Banking Union on the principles of a reserve system, which includes the central banks of the Economic Union member states.

Article 17. The legal status and procedure for organizing managerial bodies of the Banking Union shall be determined by special agreement.

The activity of the Banking Union shall be regulated by its Charter, which shall be approved by the highest legislative authorities of the Economic Union member states.

Until the Charter of the Banking Union is adopted, the USSR State Bank Board shall temporarily manage the activity of the banking system. The composition of the USSR State Bank Board shall additionally include representatives of the central banks of the Economic Union member states.

Article 18. The following functions shall be assigned to the Banking Union:

determine unified approaches to money and credit policy and establish quantitative parameters (limits) on the operations of the central member banks of the Banking Union;

determine interest rates on loans granted by the central member banks of the Banking Union to commercial banks;

determine reserve requirements for commercial banks;

organize interbank accounts;

regulate the ruble exchange rate with respect to other currencies;

manage the gold reserve and currency reserve of the Economic Union;

organize the circulation of cash, including the sale of banknotes and coinage;

regulate the general regulations governing the activity of commercial banks.

For 1992 the Banking Union shall establish limits on the participation of the central banks of the Economic Union member states in extending the credit of the budgetary systems.

The directives of the managerial bodies of the Banking Union shall be mandatory for all member banks of the Banking Union.

Chapter V. Finances and Taxes

Article 19. Member states of the Economic Union shall conduct a coordinated budget and tax policy, which implies:

coordinated limitation of the deficits of the consolidated state budgets, taking into account off-budget funds, and establishment of limits on the growth of the internal debt of Economic Union member states. In the event that the established limits are exceeded by one or several of Economic Union member states, the amount of this excess shall be drawn up as debt obligations to its other members, in accordance with coordinated regulations;

unification of the tax systems, with their simultaneous reorientation to indirect taxes, the receipts from which shall increase as prices rise.

Article 20. The member states of the Economic Union shall conclude an agreement on the division and legal reorganization of the USSR internal state debt, and the manner of its servicing in the future. Part of the debt may be classified as the common liability of the member states of the Economic Union.

The member states of the economic union affirm the continuity of the obligations made on behalf of the USSR to the owners of deposits in the USSR Savings Bank, USSR state securities, USSR Savings Bank certificates, and insurance policies (certificates) of the USSR Main State Insurance Administration.

Article 21. An Economic Union budget shall be created to finance the joint expenditures of the Economic Union member states.

Within the framework of the Economic Union budget (variant: outside of it), the following special funds shall be created:

to service the part of the USSR internal debt classified as the joint liability of the Economic Union member states;

to service the USSR foreign state debt and the foreign indebtedness of the Economic Union;

for emergency situations and to eliminate the consequences of calamities;

for environmental protection measures;

a financial reserve.

The income of the Economic Union budget shall be formed from the payments made by its members, defined as a fixed share of produced national income in current prices, or by another agreed index. The amount of and procedure for the transfer of funds shall be determined by an annual agreement by the members of the Economic Union.

The budget of the Economic Union may not be in deficit.

Article 22. The Economic Union member states may create off-budget funds to finance special-purpose programs. The off-budget funds of the Economic Union may not be in deficit.

Article 23. The Economic Union member states recognize the need to implement special-purpose programs to accelerate the development of individual regions. They shall create a regional development fund for this purpose, from deductions into it of 1.5 percent in current prices of the national income produced on their territory. The activity of this fund shall be regulated by its charter.

Article 24. To ensure the continuity of the expenditures of the union budget, before 31 December 1991 the Economic Union member states shall conclude among themselves an agreement on the re-distribution of the income and expenditures of the USSR union budget, so that beginning on 1 January 1992 all of its expenditures are realized within the framework of the state and inter-state budgetary systems.

Article 25. The member states of the Economic Union agree that regulation of the movement of monies and other financial resources, and issuance and circulation of securities within the framework of the Economic Union will be carried out in accordance with a special agreement, which derives from the need to ensure the free movement of capital..

Chapter VI. Pricing Policy

Article 26. The Economic Union member states shall conduct a coordinated policy of transition to free~~-price-formation~~ determined prices.

Article 27. In the transitional period the Economic Union member states shall:

establish agreed price levels for a limited list of goods and services, and determine the procedure for their periodic adjustment;

[illegible] ~~coordinate~~ the retail price, ~~policy,~~ including for goods purchased through import;

carry out coordinated actions to regulate prices for products [illegible] ~~produced~~ by monopoly producers.

Chapter VII. Labor Market and Social Guarantees

Article 28. The Economic Union member states shall strive to implement the principle of freedom of movement of the work force on the territory of the Economic Union member states, and will consistently create the conditions for this, including the formation of a housing market.

Article 29. The Economic Union member states consider it impermissible to discriminate against citizens based on nationality, or for other reasons, on matters of employment, wages, ensuring other working conditions, or granting social guarantees.

Members of the Economic Union shall mutually recognize the documents that confirm the level of education and qualifications of the workers who received them in the other Economic Union member states, and shall not require their additional confirmation upon acceptance for work or schooling, unless this condition is mandatory for all.

Article 30. Economic Union member states shall conclude a special agreement on mutual obligations in the field of pension support of the citizens of the states included within the Economic Union.

Chapter VIII. Foreign Economic Relations and Currency Policy

Article 31. The Economic Union member states shall agree to coordinate foreign economic activity and currency policy, for the purpose of including as rapidly as possible all members of the Economic Union, and economic subjects operating on their territory, in world economic relations.

Article 32. The Economic Union, being the assignee of all the foreign economic obligations of the USSR, shall guarantee their fulfillment. Each of the Economic Union member states, entering into the union, shall confirm its participation in the joint fulfillment of these obligations.

The members of the Economic Union consider it necessary to conclude a special agreement to determine the share of each subject of the former Union of Soviet Socialist Republics in the total amount of foreign debt of the USSR, and in the amount of the debts of other countries to the USSR, as of the date that this Treaty is concluded.

These shares shall be used for debt repayment calculations with the states not desiring to join the Treaty, or which withdraw from the Economic Union. These states shall settle accounts with the Economic Union until the amount of the debts ascribed to them is fully repaid.

In the event that a state that did not desire to join the Treaty, or which withdraws from the Economic Union, reaches an agreement with its creditors on reorganization of the part of the common foreign debt ascribed to it, then this state may independently pay off that part of the debt.

Article 33. The Economic Union shall obtain new foreign loans on the basis of a coordinated decision by all the member states of the union.

An Economic Union member state shall have the right to obtain foreign loans independently, with all of the obligations ensuing therefrom, for servicing and paying off these loans.

The granting of credits or other economic assistance to foreign states by the Economic Union or its individual member states shall be carried out in the same manner.

Article 34. Economic Union member states agree that the immediate goal of this Union shall be to achieve internal convertibility of the ruble. They shall undertake to carry out the necessary preparatory measures on the basis of an agreed program for transition to internal convertibility of the ruble.

Article 35. Until the transition to internal ruble convertibility, the Economic Union member states recognize the need to establish a uniform procedure for accumulating currency receipts to service the foreign debt, as well as to carry out the centralized importation of goods to satisfy the needs vitally important to all members of this Union, in agreed amounts.

Article 36. Economic Union member states shall independently regulate foreign economic activity, the establishment of quotas, and the licensing of foreign economic operations within the limits of the coordinated quotas set by Economic Union agencies.

Article 37. Economic Union member states shall make arrangements to preserve the unified customs space of the Economic Union, and for this purpose shall conduct a coordinated customs policy.

Questions associated with the manner of establishing and exacting of customs duties and export and import taxes into the respective budgets shall be decided by special agreement.

Article 38. Economic Union member states shall make arrangements for general membership in the International Monetary Fund, International Bank for Reconstruction and Development, General Agreement on Tariffs and Trade, and other international economic organizations, and shall confirm the authority of the respective applications made on behalf of the USSR.

Article 39. Economic Union member states shall coordinate their actions in the field of foreign investments, and technical, consultative and other types of assistance given by foreign states and international organizations.

Chapter IX. Legal Regulation of Economic Activity

Article 40. In the member states of the Economic Union, the legal documents of these states have primacy. Physical and legal persons engaged in economic activity on the territory of these states shall fall under their jurisdiction.

Article 41. Economic Union member states agree that their economic laws must be brought closer together, for the purpose of creating the most favorable and equal conditions for enterprise and free trade throughout the territory of the Economic Union. They shall undertake to ensure that their laws correspond to the norms of international law and to the documents of the Economic Union.

Article 42. In cases when the legal documents of an Economic Union member state are not brought into accord with this Treaty and the other documents of the Economic Union, the priority of these documents of the Economic Union, approved in accordance with its powers, shall be recognized in resolving contentious economic and other issues.

Article 43. During the period of time needed to regulate all aspects of economic life by the laws of the Economic Union member states, as well as by the documents of bodies of this Union, the Foundations of Civil Law and other previously approved USSR legal documents shall be applied, since they do not contradict this Treaty.

Chapter X. Economic Union Bodies

Article 44. The bodies of the Economic Union shall be as follows:

[illegible]
Inter-~~State~~ Economic Committee

Banking Union

Economic Union Arbitration

The decisions of these bodies, made within the framework of their authority, and determined by the coordinated decision of the states included in the Economic Union, shall be mandatory for the Economic Union member states.

Article 45. A Conference of government leaders of the Economic Union member states shall function to discuss key problems of implementation of a coordinated economic policy, and develop recommendations for carrying it out.

The Conference of government leaders of the Economic Union member states, on the basis of consensus, shall have the right to veto decisions of the Inter-Republic Economic Committee[*] and its Chairman, as well as to put before the parliaments of the Economic Union member states the question of replacing the chairman of the Inter-Republic Economic Committee.

Article 46. The Chairman shall lead the work of the Inter-State Economic Committee.

The candidate for Chairman of the Inter-State Economic Committee shall be proposed by the Conference of government leaders of the Economic Union member states, and approved by the highest legislative authorities of all the Economic Union member states. The Chairman of the Inter-State Economic Committee shall be accountable to the highest legislative authorities of the Economic Union member states.

Article 47. The Inter-State Economic Committee shall be the executive and administrative body of the Economic Union. It shall coordinate the conduct of economic policy by the Economic Union member states, and make decisions on the most important questions of forming the single market space, finances, trade, pricing policy, and other questions. The Inter-State Economic Committee shall check the implementation of the provisions of this Treaty, supplemental agreements, and normative documents. The Inter-State Economic Committee shall define policy with respect to states not included in the Economic Union, as well as to member states of this union that violate this Treaty.

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[*]Translator's note: Apparently the same organization as that elsewhere termed the Inter-State Economic Committee

Article 48. Appropriate commissions shall be created within the Inter-State Economic Committee.

The commission leaders shall be named by the Chairman of the Inter-State Economic Committee, and be members of that Committee.

The economic report of the Inter-State Economic Committee shall be published annually.

Article 49. A Currency Committee, Customs Committee, Budget Administration, and Statistics Administration shall be created under the Inter-State Economic Committee.

Other bodies may also be created under the Inter-State Economic Committee, with the concurrence of the Conference of government leaders of the Economic Union member states.

The procedure for the formation of these bodies, the reorganization and abolition of those created, their powers, including the right to conclude international agreements, and the procedure for designating and replacing their leaders, shall be established by the Inter-State Economic Committee.

Upon authorization of the Inter-State Economic Committee, bodies of the Economic Union may represent it in relations with third countries, their associations, and international organizations.

Article 50. The Inter-State Economic Committee shall carry out its work in close contact with the authorized representatives (in the rank of ambassadors) of the Economic Union member states.

Regular meetings of ministers of the Economic Union member states shall be held to decide questions of interaction and work out common policy for specific spheres.

Article 51. The Economic Union Arbitration shall be formed to ensure uniform application of this Treaty throughout the territory of the Economic Union, and to resolve contentious issues.

Article 52. Single patent and metrological services, and single time, weights and measures, standardization and certification services, shall be established within the framework of the Economic Union.

Article 53. The Economic Union member states shall negotiate about transforming, on an agreed basis, USSR branch managerial bodies into interstate corporations and other transnational associations and enterprises, with share participation of the Economic Union member states.

Chapter XI. Supplemental Agreements

Article 54. The regulation of economic relations among the Economic Union member states shall be carried out on the basis of this Treaty and the supplemental agreements to it.

Article 55. The following supplemental agreements shall be concluded over the course of no more than three months from the moment that this Treaty is signed, and for the entire period of validity of the latter:

on the status and powers of Economic Union bodies

on formation of the Banking Union, including its Charter

on creation of the Regional Development Fund, including its Charter

on the creation of off-budget funds of the Economic Union and the statute concerning them

on securities

on the regulation of property rights within the Economic Union on the regulation of the mutual obligations of states upon withdrawal from the Economic Union

on the procedure and conditions for the introduction of national currencies by Economic Union member states

on the procedure for shifting to general principles of international economic relations with states that were included within the USSR and which did not enter the Economic Union

on anti-monopoly policy within the framework of the united market of Economic Union member states

on the division and legal reorganization of the USSR state internal debt, and the procedure for its servicing in the future

on mutual obligations in the area of pension support

on the principles and mechanism for servicing the foreign debt of the Economic Union

on unification of the laws of the Economic Union member states that regulate economic activity

on the procedure for resolving property and other disputes.

Article 56. The following supplemental agreements shall be concluded for a period of one year, or for another agreed period:

on the prices and delivery quantities of goods according to mutual (inter-state) agreements, and for general needs

on the budget of the Economic Union

on tax policy

on customs policy and tariffs

on the maximum size of deficits of the consolidated budgets of the Economic Union member states on the establishment of domestic debt growth limits of the Economic Union member states

Chapter XII. Associate Membership in the Economic Union

Article 57. A state that was included within the USSR, and that took on only some of the obligations defined by this Treaty, with the agreement of all Economic Union members, may be granted the status of an associate member in the Economic Union.

Article 58. To join the Economic Union in the capacity of associate member, a state must take on the obligations that ensue from articles 9, 12, 14, 15, 19, 29, 30, 32 and 37 of this Treaty.

Article 59. The relations between the Economic Union and the associate member shall be regulated in each separate case by a special agreement, which provides for, in particular, resolving questions concerning the customs system, inter-state deliveries and prices, and participation in the formation of the budget and off-budget funds of the Economic Union.

XIII. Concluding Provisions

Article 60. The Economic Union member states support the resolution of questions associated with violations of this Treaty, as a rule, through negotiations.

Measures of influence, up to exclusion from the Economic Union, may be applied to Economic Union member states that commit gross violations of their obligations that ensue from the Treaty or the special agreements on specific spheres that supplement the Treaty.

Article 61. The Treaty shall be subject to ratification by the Economic Union member states in accordance with their constitutions, and shall become effective one month from the day that the instruments of ratification are turned in to the depositary state. The supplemental agreements are not subject to ratification, and shall become effective upon signature.

G. Yavlinskiy [signature]
5 Sep 91

The draft was prepared by a working group consisting of: G. A. Yavlinskiy (leader), S. V. Aleksashenko, M. M. Zadornov, V. N. Kushchenko, V. M. Mashchits, A. Yu. Mikhaylov, V. A. Orlov, M. F. Panyakin, V. A. Pokrovskiy, Yu. V. Uvarov, and Ye. G. Yasin.

Materials from the USSR Scientific and Industrial Union, Economic Policy Institute, Center for Economic and Political Studies, Fund for Economic and Social Reforms, the conference of economics and forecasting ministers, as well as the program, "Transition to the Market (500 Days)," were used in preparing the draft.

APPENDIX M:
Summary of Actions Approved by Congress of People's Deputies, September 5, 1991

SUMMARY: USSR CONGRESS OF PEOPLE'S DEPUTIES EXTRAORDINARY SESSION - SEPTEMBER 2-5, 1991

THE CONGRESS OF PEOPLE'S DEPUTIES APPROVED THREE KEY DOCUMENTS AT IT'S EXTRAORDINARY SESSION WHICH ENDED ON SEPTEMBER 5. THESE DOCUMENTS ARE SUMMARIZED BELOW.

LAW ON CREATION OF A TRANSITIONAL GOVERNMENT

THE LAW ON ORGANS OF STATE POWER AND CONTROL OF THE USSR DURING THE TRANSITIONAL PERIOD IS THE MOST CRUCIAL DOCUMENT TO EMERGE FROM THE CONGRESS. IT TRANSFORMS THE STRUCTURE OF SOVIET GOVERNMENT ALMOST BEYOND RECOGNITION. THE LAW CONTAINS NINE ARTICLES:

-- ARTICLE 1 NAMES THE USSR SUPREME SOVIET AS THE HIGHEST REPRESENTATIVE ORGAN OF POWER OF THE USSR DURING THE TRANSITION PERIOD. THE SUPREME SOVIET WILL CONSIST OF AN UPPER CHAMBER, THE COUNCIL OF THE REPUBLICS, AND A LOWER CHAMBER, THE COUNCIL OF THE UNION. THE COUNCIL OF THE REPUBLIC WILL CONSIST OF TWENTY DEPUTIES FROM EACH UNION REPUBLIC AND TWENTY USSR PEOPLE'S DEPUTIES. THE RSFSR, IN RECOGNITION OF ITS "FEDERATIVE" STRUCTURE, WILL HAVE FIFTY-TWO DEPUTIES EACH REPUBLIC, HOWEVER, WILL HAVE ONLY ONE VOTE IN THE COUNCIL OF THE REPUBLICS. THE COUNCIL OF THE UNION WILL BE THE SAME BODY WHICH PREVIOUSLY EXISTED IN THE USSR SUPREME SOVIET, WITH ITS MEMBERSHIP "RENEWED."

-- ARTICLE 2 SETS OUT THE DIFFERENT COMPETENCIES OF THE TWO CHAMBERS AND GRANTS THEM THE POWER TO AMEND THE USSR CONSTITUTION. ARTICLE 2 FURTHER STATES THAT REPUBLIC CONSTITUTIONS TAKE PRECEDENCE OVER LAWS PASSED BY THE USSR SUPREME SOVIET.

-- ARTICLE 3 PROVIDES FOR THE CREATION OF A STATE COUNCIL CONSISTING OF THE USSR PRESIDENT AND THE HIGHEST STATE AUTHORITIES OF THE UNION REPUBLICS. THE STATE COUNCIL WILL BE LED BY THE USSR PRESIDENT.

-- ARTICLE 4 ELIMINATES THE POSITION OF USSR VICE PRESIDENT. IT FURTHER PROVIDES THAT IN THOSE CASES WHEN THE USSR PRESIDENT IS NO LONGER CAPABLE OF CARRYING OUT HIS DUTIES, THE STATE COUNCIL WILL SELECT ONE OF ITS MEMBERS TO REPLACE HIM, SUBJECT TO CONFIRMATION BY THE SUPREME SOVIET. ARTICLE 4 ALSO STATES THAT ONLY A MEDICAL COMMISSION APPOINTED BY THE USSR SUPREME SOVIET HAS THE POWER TO DECLARE THE PRESIDENT PHYSICALLY INCAPABLE OF PERFORMING HIS DUTIES.

-- ARTICLE 5 PROVIDES FOR THE CREATION OF AN INTER-REPUBLIC ECONOMIC COMMITTEE, SUBORDINATE TO THE USSR PRESIDENT, THE STATE COUNCIL AND THE USSR SUPREME SOVIET, TO CARRY OUT ECONOMIC REFORM.

-- ARTICLE 6 PRESERVES THE STATUS OF ALL USSR PEOPLE'SDEPUTIES DURING THE TRANSITION PERIOD.

-- ARTICLE 7 STATES THAT THE FIRST SESSION OF THE NEW USSR SUPREME SOVIET WILL CONVENE NOT LATER THAN OCTOBER 2.

-- ARTICLE 8 STATES THAT THE USSR CONSTITUTION CONTINUES IN EFFECT ONLY TO THE EXTENT THAT IT DOES NOT CONTRADICT THE CURRENT LAW. IT ALSO PROVIDES THAT CONSTITUTIONAL AMENDMENTS APPROVED BY THE USSR SUPREME SOVIET MUST BE RATIFIED BY THE LEGISLATURES OF THE UNION REPUBLICS.

-- ARTICLE 9 STATES THAT THIS LAW ENTERS INTO EFFECT FROM THE MOMENT OF ITS PUBLICATION, WITH THE EXCEPTION OF ARTICLE 2, WHICH GOES INTO EFFECT FROM THE MOMENT OF THE OPENING OF THE NEW USSR SUPREME SOVIET.

A DECLARATION ON HUMAN RIGHTS AND FREEDOMS

THE DECLARATION ON HUMAN RIGHTS AND FREEDOMS IS THE LONGEST OF THE DOCUMENTS APPROVED BY THE CONGRESS. IT CONSISTS OF AN EXPLICIT ENUMERATION OF THE RIGHTS OF INDIVIDUALS. ITS SIGNIFICANCE LIES IN THE FACT THAT IT IS THE FIRST GUARANTEE OF THE RIGHTS OF INDIVIDUALS IN SOVIET HISTORY.

RESOLUTION OUTLINING THE SHAPE OF A NEW UNION

THE RESOLUTION ON MEASURES ARISING FROM THE JOINT DECLARATION CONTAINS SEVEN POINTS:

-- POINT 1 APPROVES THE SEPTEMBER 2 RESOLUTION SIGNED BY GORBACHEV AND TEN REPUBLIC LEADERS.

-- POINT 2 URGES RAPID CONCLUSION OF A "TREATY ON THE UNION OF SOVEREIGN STATES," IN WHICH EACH STATE MAY CHOOSE THE EXACT NATURE OF ITS PARTICIPATION.

-- POINT 3 PROVIDES FOR THE CREATION OF AN INTER-REPUBLIC COMMITTEE ON ECONOMIC, FINANCIAL, SCIENTIFIC-TECHNICAL, ECOLOGICAL AND OTHER COOPERATION. THIS POINT ALSO ESTABLISHES THE PRINCIPLE OF A SINGLE (YEDINYY) SECURITY AND DEFENSE POLICY, INCLUDING SINGLE CONTROL OVER NUCLEAR AND OTHER WEAPONS OF MASS DESTRUCTION.

-- POINT 4 CALLS ON THE USSR PRESIDENT, THE SUPREME SOVIET, AND THE GOVERNMENT COUNCIL TO PROVIDE LEGAL CONTINUITY OF POWER AND CONTROL DURING A TRANSITION TO A DEMOCRATIC, CIVIL SOCIETY.

-- POINT 5 PROMISES THAT DURING THIS TRANSITION PERIOD ALL INTERNATIONAL AGREEMENTS AND COMMITTMENTS UNDERTAKEN BY THE SOVIET UNION WILL BE HONORED, INCLUDING THOSE DEALING WITH ARMS CONTROL AND REDUCTION, HUMAN RIGHTS, AND FOREIGN ECONOMIC OBLIGATIONS.

-- POINT 6 INSTRUCTS ALL GOVERNMENT ORGANS TO OBSERVE HUMAN RIGHTS DURING THE TRANSITION PERIOD.

-- POINT 7 RECOGNIZES ALL DECLARATIONS OF SOVEREIGNTY AND INDEPENDENCE PASSED BY THE REPUBLICS AND EMPHASIZES THAT THOSE REPUBLICS NOT WISHING TO JOIN THE NEW UNION WILL NEED TO CONDUCT NEGOTIATIONS TO RESOLVE A VARIETY OF ISSUES RESULTING FROM THEIR LEAVING THE UNION.

APPENDIX N:
Translation of Shatalin Draft Convention on Economic Community in Izvestia, September 5, 1991

ENCLOSURE 3

TRANSLATION OF SHATALIN DRAFT CONVENTION ON ECONOMIC COMMUNITY

In Izvestia, 5 September 1991

FBIS SOV-91-172
5 September 1991 Pp. 43-49

Enclosure 2

Draft Convention on Economic Community

PM0409170891 Moscow IZVESTIYA in Russian 5 Sep 91 Union Edition p 7

["Draft Convention on the Creation of an Economic Community"; footnote reads "The draft Convention was drawn up by a working party of experts under the leadership of Academician S.S. Shatalin, president of the Fund for Economic and Social Reforms"]

[Text] The states which have signed the present Convention: (here insert names of states), hereinafter called the "parties to the Convention":

taking into consideration the radical transformations in the Community countries and the need to complete economic reforms;

guided by the common objectives of increasing the material well-being and spiritual development of their peoples;

wishing to live in friendship and accord, seeking to create the conditions for the free development of every individual;

drawing on the established production, scientific, technical, economic, trade, cultural, and other links;

mindful of the advantages of economic integration and the need for coordinated actions to create a single economic space as an important prerequisite for entry into the world market;

have decided to create an Economic Community and agreed to build their relations on the following basis.

Chapter 1. Membership of the Community

Article 1. The Community is founded on the basis of the equality of all states, which have entered into it voluntarily.

Article 2. States joining the Community may acquire the status of full member, associate member, or observer.

A full member is deemed to be a state that has taken upon itself in full the commitments stemming from the present Convention. Such states acquire in full the rights stipulated by the Convention.

States not taking upon themselves the fulfillment of the commitments in full may acquire the status of associate member or observer. Their status and powers are defined by a special agreement.

Article 3. The parties to the Convention, guided by the Universal Declaration of Human Rights, ensure equality of rights and freedoms for all persons irrespective of citizenship, nationality, or religion, and create the conditions for the fullest possible development of the individual's creative and intellectual potential.

Article 4. The parties to the Convention adopt all measures to ensure the fulfillment of the commitments stemming from the present Convention. They proceed on the basis of mutual economic accountability for the fulfillment of the provisions of the present Convention, and refrain from any measures jeopardizing the implementation of individual commitments or of the Convention as a whole.

Article 5. The parties to the Convention have the right freely to secede from the Community, and also the right to join other Communities, unions, and other political and economic associations or agreements.

Parties that violate the rules and conditions defined by the present Convention may be expelled from the Community according to the procedure laid down by the Community.

Article 6. The Community is open for entry by other states that recognize the present Convention.

Chapter 2. General Provisions

Article 7. The parties to the Convention proceed on the principle that the basis of their economic system consists of autonomous entities engaged in economic activity. The equality of all forms of ownership and types of economic activity and entrepreneurship is recognized.

The Community member-states regulate their relations both on the basis of market mechanisms and on the basis of interstate bilateral and multilateral agreements.

The parties to the Convention undertake to establish clear legal guarantees of free enterprise and to give all-around support to its development.

Article 8. The parties to the Convention proceed on the basis that the property of state enterprises, organizations, and institutions located on their territory, with the exception of specially stipulated cases, is the property of the state in question.

Article 9. The parties to the Convention regard ensuring honorable competition between commodity producers as one of the most important conditions of the efficient functioning of their market mechanisms. In accordance with this they will implement agreed measures to overcome monopolism, and deem it expedient to establish in the Community common fundamentals of antimonopoly regulations and rules of competition.

Article 10. The parties to the Convention regard as one of the Community's most important objectives the gradual transition to the free movement of goods and services over the entire territory of the Community.

In the initial stage, possible restrictions on such movement may be preserved by an agreed decision of all the Community member-states.

Article 11. The parties to the Convention proceed on the basis that within the framework of the Community, the principles for regulating the movement of moneys, securities, and other capital belonging to individuals and legal entities should be defined on the basis of an agreement.

If the movement of financial resources causes disruption of the functioning of the capital market in any Community member-state, that state is entitled to adopt the necessary precautionary measures, immediately informing the relevant Community institution of the conditions and methods of applying them.

Article 12. The parties to the Convention will adopt measures on the basis of bilateral and multilateral agreements to regulate the movement of manpower within the Community. They will form a common labor market within the Community as the economic conditions for this are created.

Article 13. The parties to the Convention have agreed not to impose a visa system for their citizens' movements.

Chapter 3. Economic Principles

Article 14. The parties to the Convention proceed from the need for coordinated actions in the sphere of monetary, currency, and customs policy and the regulation of taxation.

Article 15. The parties to the Convention may use on their territories a single monetary unit or national currencies.

Article 16. Those parties to the Convention using the single monetary unit are to found a Banking Union on the principles of a reserve system.

The following basic functions are vested in the Banking Union:

—formulation and implementation of a coordinated monetary and credit policy;

—establishment of the procedure for effecting settlements between the central (national) banks of the Community member-states;

—coordination of the rules for the activity of commercial banks in the Community;

—organization of banks' accounting and reporting.

Article 17. Relations between the Banking Union and those Community member-states using national monetary units are governed by special agreements.

Article 18. The Banking Union is independent in its activity and acts in accordance with the Statutes laid down by those Community member-states using a single monetary unit.

Article 19. In order to monitor the activity of the Banking Union, a Supervisory Council is to be formed, including representatives of all the central (national) banks belonging to it.

Article 20. In the sphere of currency policy the parties to the Convention deem the following to be priority tasks: achieving the convertibility of currencies, managing the foreign debt, and lessening its adverse effect on their economic development.

A Currency Regulation Fund is set up to coordinate currency policy.

Article 21. The Currency Regulation Fund is formed on the basis of contributions by the parties to the Convention on a scale stipulated by the Statutes of the said fund, approved by the Community member-states.

Article 22. All new foreign loans are realized by the parties to the Convention either collectively or autonomously. In the latter case the debt is a foreign state debt of the Community member-state in question, and the costs of servicing it fall on that state alone.

Article 23. The granting of loans and other economic aid to foreign states as well as the conclusion of agreements for receiving such aid from foreign sources on behalf of the Community and for utilizing such aid takes place on the basis of an agreed decision by all the Community member-states.

Article 24. The conditions and procedure for fulfilling previously undertaken foreign economic commitments and commitments relating to contributions to international organizations, banks, and funds are to be determined in the course of talks relating to foreign debt assets and liabilities and to the transfer of gold and currency reserves to the ownership of the Community member-states.

Article 25. With a view to making provision for mutual settlements and regulation of debt commitments, the parties to the Convention will examine the question of creating a Community Payments Union.

Article 26. Trade between the parties to the Convention takes place on a duty-free basis.

Article 27. Parties to the Convention pursue a coordinated customs policy with regard to third countries.

Article 28. Parties to the Convention pursue an autonomous budgetary and tax policy within the limits of their territories.

The procedure for the formation and utilization of the budgets of Community member-states is determined by their legislation. They autonomously formulate and utilize a system of taxation, dues, and compulsory payments.

At the same time they are to hold consultations on the coordination of policy in the sphere of the regulation of the budget and taxation.

Article 29. In order to finance the Community's joint expenditure and the activity of its institutions, a Community budget is formed. To this end special-purpose fixed payments are set on a scale agreed with the Community member-states.

Article 30. With a view to preventing social conflicts and strengthening citizens' social protection, the parties to the Convention implement agreed measures in the sphere of social guarantees and employment policy.

Special targeted social funds may be set up within the Community on a bilateral and multilateral basis.

Article 31. Proceeding from the interests of the harmonization of economic activity, the parties to the Convention are to hold consultations on a single metrological service, time, weights, and measures service and systems of statistical accounting, bookkeeping, and standards, in line with world practice.

Chapter 4. Community Institutions

Article 32. In order to achieve the objectives set for the Community the parties to the Convention will found on a voluntary and parity-representation basis institutions to carry out the consultative and coordinating functions arising from the Convention.

Article 33. The exercise of the powers vested in the Community is effected by the Community Council, the Economic Committee, the Judicial Collegium, the Court of Arbitration, and specialized institutions.

Article 34. The supreme organ of the Community is the Community Council, on which each full-member state has one vote.

The Council discusses and adopts decisions on strategic questions relating to the functioning of the Community and the formation of its working bodies.

Article 35. The functions of Council chairman are performed for a six-month term by each Council member in sequence.

Article 36. The Council is convened at times agreed with all its members.

Emergency sessions of the Council are convened either on the initiative of the chairman or if at least one-third of Council members so wish.

Article 37. All Council decisions, except procedural decisions, are adopted on a consensus basis.

The Council unanimously designates a list of questions on which a decision can be adopted by qualified majority.

Article 38. Council sessions are held on the territory of the state whose representative is carrying out the chairman's duties at the given moment.

Article 39. The permanently operating working body of the Community Council is the Economic Committee, which:

—coordinates the implementation of the provisions of the present Convention;

—submits recommendations and conclusions on questions relating to the Convention;

—regularly publishes a general report on the Community's activity.

Article 40. The Committee is composed of plenipotentiary representatives of the Community member-states confirmed for a four-year term.

The Committee independently establishes the procedure for its work within the limits of its powers.

The chairman and vice chairmen are appointed by the Council for a four-year term.

The procedure for the replacement and removal of members of the Committee, including its chairman and vice chairmen, is governed by the Committee Statutes.

Article 41. In order to exercise its powers the Committee creates working bodies whose structure, budget, and operating procedure are confirmed by the Community Council.

Article 42. A Judicial Collegium is created for the purposes of ensuring the lawfulness of the interpretation and fulfillment of the present Convention, and a Community Court of Arbitration is created to resolve property and economic disputes.

Article 43. The powers of the Judicial Collegium and and Court of Arbitration, the procedure for making applications to the Collegium and the Court, and the conditions for the replacement and removal of their members are governed by a special protocol confirmed by the Community Council.

Article 44. The procedure for the formation of new specialized institutions, the reorganization and disbandment of existing ones, the limits of their powers, and procedural questions are determined by the Economic Committee and confirmed by the Community Council.

Article 45. The parties to the Convention will found a Community Development Bank.

The members of the Bank are members of the Community. The Bank Charter is confirmed by the Community Council.

Article 46. The Bank's task is to promote, by issuing loans and providing guarantees, the financing of modernization, conversion, and production reorientation projects and other projects determined by the Bank in response to proposals from the parties to the Convention.

Article 47. The parties to the Convention are entitled to create funds on a bilateral and multilateral basis: a fundamental scientific research fund and innovation, social, structural, and other funds.

Article 48. On the authority of the parties to the Convention Community institutions can represent them in mutual relations with third countries, associations of third countries, and international organizations, including the conclusion of international treaties.

Chapter 5. Legal Foundations. Regulation of Disputes

Article 49. The parties to the Convention proceed from the principle of the paramountcy of each state's laws on its territory.

All individuals and legal entities operating on Community member-states' territory are guided by and unswervingly fulfill that state's laws and Community normative acts relating to the area of competence determined by the parties to the Convention.

Article 50. The parties to the Convention determine the procedure and adopt measures to bring into closer alignment national legislative acts and normative and other decisions having a direct bearing on the creation and functioning of a common market and the Community's activity.

Article 51. The Community Judicial Collegium is entitled to raise the question of suspending the operation of Community member-states' legislative and normative acts if they obstruct the fulfillment of commitments arising from the present Convention.

Chapter 6. Legislative Provisions

Article 52. The parties to the Convention are entitled to conclude among themselves, and also with third countries, any agreements and treaties determining relations between them on condition that the implementation of these agreements and treaties is not detrimental to Community members or the Community as a whole.

Article 53. For the full implementation of the provisions of the Convention, the parties to it deem it expedient to sign the following multilateral agreements:

[Text] on the closer alignment of national economic legislation:

on the regulation of questions relating to the property of Community member-states on the territory of other Community member-states;

on tax policy;

on monetary and credit policy;

on foreign currency policy;

on customs policy;

on transportation, energy supplies, and ecology;

on conditions for the supply of goods and services and price control;

on social guarantees;

on food resources;

on antimonopoly policy and competition;

on principles of privatization;

on the status and powers of Community institutions;

on the status of Community institution employees;

on the status of full and associate Community members;

on gold and diamond reserves;

on the fulfillment of previously adopted international commitments;

on visa-free arrangements for the movement of Community states' citizens within the bounds of the Community's territory.

The list of above-mentioned agreements can be augmented on the initiative of any Community member.

Article 54. The present Convention presupposes that the consistent creation of a Community common market will be effected in stages.

A package of measures agreed by the parties to the Convention ensuring the achievement of the objectives and realization of tasks arising from the present Convention will be implemented at each stage.

Article 55. The parties to the Convention annually examine in the Community Council the fulfillment of agreements they have signed and the progress of the implementation of measures and the fulfillment of the provisions of the Convention as a whole.

Article 56. The present Convention is subject to ratification by the Community member-states in accordance with their constitutions.

The Convention comes into force one month from the date of the deposition of instruments of ratification.

Article 57. The Convention is drawn up in the languages of the Community member-states, all texts being authentic and of equal force. The texts of Community institutions' normative acts are drawn up in Russian, which is the lingua franca of the Community, and in the languages of the Community member-states.

Article 58. The Community is an open economic system and encourages all types of economic cooperation with third countries, associations of third countries, and international organizations. The states party to the Convention provide internationally recognized guarantees for foreign property on their territory.

[Unattributed preview carried on page 1 as part of the "IZVESTIYA, TASS, AFP, AP, REUTER" roundup, under the heading "Group of Experts Proposes Principles of Economic Community," reads: "The document proposing the principles for the creation of an Economic Community of sovereign states has come as a surprise to many. Work on it began soon after the putsch. Representatives of 13 republics took part in the work on the document, under the leadership of Academician S. Shatalin. Specialists from Latvia and Moldova have now joined in the work. You can read the text of the Convention, submitted to the editorial office by the 'Reform' Foundation, on page 7. Our commentary follows in the next issue."]

ENCLOSURE 2

SUMMARY OF IZVESTIA SEPTEMBER 2, 1991 INTERVIEW WITH SOVIET COMMERCIAL AUTHORITY

Ivan D. Ivanov, Prepared by U.S. Embassy

"DIVIDING UP THE USSR'S FOREIGN DEBT BETWEEN 15 SOVEREIGN STATES WILL NOT BE EASY"

(SUMMARY OF A SEPTEMBER 2 ARTICLE IN "IZVESTIA", PAGE 3)

SIZE OF THE FOREIGN DEBT PROBLEM

AN ARTICLE IN THE SEPTEMBER 2 EDITION OF "IZVESTIA" DISCUSSES SOVIET FOREIGN INDEBTEDNESS AND PROBLEMS INVOLVED IN DIVIDING UP THE DEBT AMONG THE REPUBLICS. THE ARTICLE IS BASED, AT LEAST IN PART, ON AN INTERVIEW WITH IVAN IVANOV, FORMER DEPUTY CHAIRMAN OF THE USSR STATE COMMITTEE ON FOREIGN ECONOMIC RELATIONS.

ACCORDING TO THE ARTICLE, OVERALL USSR FOREIGN DEBT WILL LIKELY REACH $70.2 BILLION (OR 39 BILLION HARD CURRENCY RUBLES, ACCORDING TO "IZVESTIA") BY THE END OF 1991. (NOTE. SEE COMMENT AT END ON AMOUNT OF SOVIET DEBT. END NOTE.) THIS INCLUDES LOANS ALREADY CONCLUDED BY THE ALL-UNION GOVERNMENT OR MADE WITH ITS GUARANTEE. THE ARTICLE ALSO CLAIMS THAT THE USSR'S ESTIMATED FOREIGN EXCHANGE EARNINGS THIS YEAR WILL AMOUNT TO ABOUT 22 BILLION HARD CURRENCY RUBLES (ABOUT $36.7 BILLION AT .60 DOLLARS TO THE RUBLE). ABOUT ONE HALF OF THIS AMOUNT WILL BE NEEDED JUST TO SERVICE THE USSR'S DEBT, ACCORDING TO "IZVESTIA." (NOTE: THE "IZVESTIA" ARTICLE CONTAINS A COPY OF TWO TABLES ON SOVIET FOREIGN DEBT WHICH ARE FROM THE AUGUST 24 EDITION OF "THE ECONOMIST." END NOTE.)

PRACTICAL PROBLEMS IN DIVIDING UP THE DEBT

"IZVESTIA" SAYS THAT THE REPUBLICS WILL HAVE TO TAKE ON A PART OF THE OVERALL USSR FOREIGN DEBT AT THE SAME TIME THAT THEY ATTAIN THEIR INDEPENDENCE, SINCE THEY ARE THE LEGAL SUCCESSORS OF THE USSR. HOWEVER, THIS ISSUE CAN TURN OUT TO BE ONE OF THE MOST COMPLICATED AND CONTROVERSIAL PROBLEMS CONNECTED WITH THE TREATMENT OF PROPERTY RELATIONS, ACCORDING TO "IZVESTIA."

IVANOV POINTS OUT THAT THE USSR'S FOREIGN DEBT IS INCLUDED IN 360 SEPARATE LOAN AGREEMENTS. THE USSR'S LARGEST CREDITORS ARE GERMANY, ITALY, AND JAPAN. HOWEVER, THE USSR IS A MAJOR DEBTOR TO PRACTICALLY THE ENTIRE G-7, AS WELL AS TO SOUTH KOREA. IVANOV CLAIMS THAT DIVIDING UP THE USSR'S FOREIGN DEBT OBLIGATIONS AMONG 15 SOVEREIGN STATES IS PRACTICALLY IMPOSSIBLE, BECAUSE THE LOAN AGREEMENTS INVOLVE DIFFERENT CURRENCIES, PAYMENT PERIODS, AND INTEREST RATES.

"IZVESTIA" REPORTS THAT AS A RESULT OF PROTRACTED NEGOTIATIONS, AN INTERREPUBLIC GROUP OF EXPERTS REACHED AGREEMENT ON "SYNTHETIC COEFFICIENTS" WHICH CONTAIN FOUR INDICATORS FOR DIVIDING UP THE DEBT BASED ON EACH REPUBLIC'S PORTION OF THE USSR'S EXPORTS, IMPORTS, NATIONAL INCOME, AND POPULATION. THE INTRODUCTION OF SUCH A COMPLICATED FORMULA WAS NECESSARY SINCE NO SINGLE INDICATOR WAS ACCEPTABLE TO THE VARIOUS REPUBLICS. USING ONLY POPULATION AS AN INDICATOR WOULD DISADVANTAGE THE CENTRAL ASIAN REPUBLICS, WHICH ARE GENERALLY SHORT OF HARD CURRENCY. USING NATIONAL INCOME AS THE ONLY BASIS WOULD MEAN PLACING MOST OF THE BURDEN ON THE RSFSR, UKRAINE, AND BALTIC REPUBLICS.

ACCORDING TO "IZVESTIA," HOWEVER, DESPITE THE WORK ON THE "SYNTHETIC COEFFICIENTS," THE REPRESENTATIVES OF THE REPUBLICS HAVE BEEN UNABLE WORK OUT A CONCRETE METHODOLOGY FOR DIVIDING UP THE DEBT. THE NEGOTIATIONS DRAGGED ON SO LONG THAT LATVIA DECIDED UNILATERALLY THAT ITS SHARE OF THE DEBT SHOULD BE 2.5 PERCENT OF THE USSR'S OVERALL DEBT.

"IZVESTIA" ALSO CLAIMS THAT IT IS CLEAR THAT THE FINAL SETTLEMENT OF THE DEBT ISSUE, AT LEAST WITH THOSE REPUBLICS NOT REMAINING THE UNION, WILL NEED TO BE DONE AT LEAST IN THE FORESEEABLE FUTURE, IF NOT BEFORE THEY SEPARATE FROM THE UNION. "IZVESTIA" ALSO CLAIMS THAT DIVIDING UP THE DEBT WHICH FOREIGN COUNTRIES OWE THE USSR WILL BE JUST AS COMPLICATED AS DIVIDING UP THE DEBT OWED BY THE USSR.

"IZVESTIA" REPORTS THAT THE DISCUSSIONS ON A FAIR DIVISION OF THE USSR'S DEBT HAVE BEEN GOING ON FOR ABOUT A YEAR AND WILL UNDOUBTEDLY CONTINUE. "IZVESTIA" CONCLUDES BY SAYING THAT ONE WOULD HOPE THAT AT LEAST THE REPUBLICS WILL RULE OUT THE POSSIBILITY OF A UNILATERAL REFUSAL TO ACCEPT THEIR RESPONSIBILITIES AS SUCCESSORS TO THE UNION.

COMMENT

SOMETHING APPEARS TO BE WRONG WITH "IZVESTIA'S" ARITHMETIC. ACCORDING TO THE SEPTEMBER 3 EDITION OF "IZVESTIA," THE OFFICIAL EXCHANGE RATE IS 0.5973 HARD CURRENCY RUBLES TO THE USD. 39 BILLION HARD CURRENCY RUBLES WOULD EQUAL ABOUT $65 BILLION DOLLARS.

APPENDIX P:
Delegation Letter to President of Romania on the Adoption Issue

Congress of the United States
House of Representatives
Washington, DC 20515

September 26, 1991

President Ion Iliescu
Government of Romania
Cotroceni Palace
Bucharest
Romania

Dear Mr. President:

As you know, our delegation visited Romania in late August and had very productive discussions with Romanian officials on trade and economic issues, among other matters. We would like to express our appreciation for the time the members of your cabinet gave to us. The political and economic challenges you face are enormous, and it was extremely helpful to discuss the policies you will pursue in transforming Romania into a country with democratic institutions and a market economy.

We are writing to appeal to you for assistance. During our visit, we asked several questions about the adoption by U.S. citizens of babies born in Romania. These questions were raised because of the importance of such adoptions for hopeful parents, as well as for the children, and because of the adverse publicity about the conditions found in orphanages and the indefensible practices surrounding foreign adoptions. We recognize that the situation has greatly improved, and we sincerely applaud the efforts of the Romanian government to establish fair and responsible adoption procedures.

Romania can be proud of the significant improvements contained in the new adoption law that went into effect on July 17, 1991. It was absolutely essential to revise adoption procedures in order to protect the interests of Romanian children and to bring a greater degree of certainty to the adoption process. However, several families that have pursued adoptions with integrity find themselves caught between the old law and the new law.

For example, two families carefully followed the proper course for adoptions under the law existing at the time. These families, who went through careful evaluation, now each have a beautiful baby in their custody. Suddenly, under the new adoption law, they find they must break the bond they formed with the child, return the child to the orphanage for at least six months and begin the process anew. Even then, there is no guarantee that they will ever see the child they have come to love and think of as their own.

We assure you that we appreciate the need for a more effective adoption law and the desire to take some time to see whether prospective Romanian parents can be found. However, problems arising as a result of the transition from the old law to the new will unavoidably occur. The cases cited above, and others involving Americans which U.S. officials have reviewed with your government, demonstrate that real-life situations are are sometimes at odds with changing laws, no matter how meritorious.

We appeal to you to help in the resolution of these cases on humanitarian grounds. We believe it particularly would be in the best interest of the children who have already formed bonds with their new mothers and who could not possibly benefit from a separation of six months during these critical developmental years. It is impossible to foresee every difficulty that might occur when a new law is implemented. These parents have been caught unwittingly in circumstances where the law is not easily applied fairly and compassionately.

We ask that your good offices be applied in resolving these transitional cases and hope that soon these adoptions can be finalized and the children can begin their new life with loving parents. We very much appreciate your consideration in this matter and the time you have extended to us in addressing our concerns.

Sincerely,

Sam M. Gibbons
Sam M. Gibbons

Ed Jenkins
Ed Jenkins

Beryl Anthony, Jr
Beryl Anthony, Jr.

Bob McEwen
Bob McEwen

Nancy L. Johnson
Nancy L. Johnson

Don Pease

William J. Coyne

Appendix Q:
Cable From Assistant Secretary of State Mullins to Chairman Gibbons Authorizing Travel in the Soviet Union August 28, 1991

E.O. 12356: N/A
TAGS: OREP, ASEC, ETRD, UR
SUBJECT: CODEL GIBBONS

DEAR MR. CHAIRMAN:

OVER THE PAST TEN DAYS THE UNSETTLED SITUATION IN THE SOVIET UNION HAS SEVERELY CONSTRAINED THE ABILITY OF OUR EMBASSY IN MOSCOW TO SUPPORT VISITS TO THE SOVIET UNION BY CONGRESSIONAL DELEGATIONS WHILE AT THE SAME TIME COVER AND REPORT ON EVENTS THERE. AS YOU KNOW, THE ADMINISTRATION HAS MONITORED THE SITUATION CLOSELY IN ORDER TO AUTHORIZE CONGRESSIONAL VISITS ON U.S. MILITARY AIRCRAFT AT THE EARLIEST POSSIBLE TIME. IN THAT REGARD, WE WERE PARTICULARLY MINDFUL OF THE NEED TO NOTIFY YOU IMMEDIATELY OF ANY CHANGE BECAUSE OF THE IMPORTANCE OF YOUR VISIT AND THE FACT THAT YOU ARE NOW IN EUROPE ENROUTE TO COMPLETING YOUR LONG-SCHEDULED VISIT TO THE SOVIET UNION.

AS YOU ARE AWARE, THE ADMINISTRATION HAS NOW AUTHORIZED U.S. MILITARY AIRCRAFT TO TRANSPORT YOU AND YOUR CONGRESSIONAL DELEGATION INTO AND WITHIN THE SOVIET UNION. A COPY OF THIS CABLE IS SIMULTANEOUSLY BEING TRANSMITTED TO OUR POSTS IN THE SOVIET UNION TO NOTIFY THEM OF THIS DECISION SO THAT THEY CAN INITIATE THE STEPS NECESSARY TO ARRANGE AS PRODUCTIVE A VISIT AS POSSIBLE. I KNOW THAT THEY WILL EXPEND EVERY EFFORT TO THAT END. HOWEVER, I KNOW YOU WILL UNDERSTAND THAT THE DOMESTIC POLITICAL SITUATION IN THE SOVIET UNION MAY STILL LIMIT THE POSTS' ABILITY TO ORGANIZE AS FULL A SCHEDULE AS MIGHT OTHERWISE HAVE BEEN POSSIBLE BEFORE THE EVENTS OF LAST WEEK.

WE HAVE ASKED EMBASSY PRAGUE TO OBTAIN FROM YOUR STAFF AND TRANSMIT TO ALL CONCERNED POSTS A NOTIONAL ITINERARY FOR THE REMAINDER OF YOUR TRAVELS, INCLUDING PLANS FOR A STOP IN LONDON AFTER YOU DEPART THE USSR. ON OUR PART, WE WILL DO EVERYTHING POSSIBLE TO MAKE AND CONFIRM MEETINGS ALONG THOSE LINES.

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FINALLY, PLEASE ACCEPT MY SINCERE GRATITUDE FOR YOUR PATIENCE AND UNDERSTANDING AS WE SOUGHT TO BALANCE THE SITUATION IN THE SOVIET UNION WITH THE IMPORTANT INTEREST OF MEMBERS OF CONGRESS IN ASSESSING THE SITUATION FIRST-HAND. I LOOK FORWARD TO WORKING WITH OUR POSTS ABROAD IN COMING DAYS TO ENSURE THE SUCCESS OF YOUR VISIT.

SINCERELY,

JANET G. MULLINS
ASSISTANT SECRETARY
LEGISLATIVE AFFAIRS [illegible]